

Exhibit List

Tab #	Description
1	"Globalist Factsheet: Our Top Facts on Russia," (Nov. 12, 2001)
2	"Government Session Reviews Amendments to Bankruptcy Law, Customs Code," <i>Moscow Kommersant</i> (Nov. 14, 2001)
3	"Russian Federal Bankruptcy Service Chief Trefilova on Bankruptcy Law," <i>Moscow Vek</i> (Oct. 26, 2001)
4	Economist Intelligence Unit, "Country Commerce Russia" (Nov. 2001)
5	U.S. Commercial Service, Country Commercial Guide Russia Fiscal Year 2002 (July 15, 2001)
6	"Scratch and sniff: Russia's economic recovery is more fragile than it seems," <i>Economist</i> (Feb. 14, 2002)
7	"The Concept of New Law on Currency Control and Currency Regulation Proposed by Ministry of Finance," Deloitte & Touche CIS Legislative Tracking (Oct. 19, 2001)
8	"The Draft Law on the Obligatory Control Over Certain Currency Transactions has been Rejected," Deloitte & Touche CIS Legislative Tracking (Dec. 7, 2001)
9	Constitution of the Russian Federation, Article 27
10	Law of the Russian Federation No. 5242-1, "On the Right of Citizens of the Russian Federation to the Freedom of Movement, the Choice of a Place of Stay and Residence within the Russian Federation" (June 25, 1993)
11	Noah Rubins, <i>Recent Developments: The Demise and Resurrection of the Propiska: Freedom of Movement in the Russian Federation</i> , 39 HARV. INTL. L.J. 545, 549-562
12	"Luzhkov Vows To Flout Court Ruling," <i>RFE/RL Newsline</i> (Mar. 11, 1998)
13	Damian S. Schaible, Life in Russia's 'Closed City': Moscow's Movement Restrictions and the Rule of Law, 76 N.Y.U. L. REV. 344, 352-356 (Apr. 2001)
14	Human Rights Watch, "World Report 2001: The Russian Federation."
15	"Remarks by Labor and Social Development Minister Alexander Pochinok at a Breakfast of the American Chamber of Commerce in Russia," <i>Federal News Service</i> (Jan. 23, 2002)
16	"Czech Republic," "Russia," CIA World Factbook (2001)
17	<i>Omnibus Trade and Competitiveness Act of 1988: Conference Report</i> , Pub. L. No. 100-418, v. 5, 591 (Apr. 20, 1988)
18	<i>Transition Report 2001: Energy in Transition</i> , European Bank for Reconstruction and Development (2001)

Exhibit 1

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Globalist Factsheet (tm)

Our Top Facts on Russia

On March 26, Vladimir Putin became Russia's second democratically elected president. As the overwhelming favorite, Mr. Putin's victory was less of a surprise than the nearly 70% turnout of eligible voters at the polls. Our Globalist Factsheet profiles Mr. Putin's Russia.



- [Is Russia an "economic superpower"?](#)
- [How are Russians faring in post-Soviet times?](#)
- [What role does the Russian military play?](#)

Is Russia an "economic superpower"?

- Even though Russia's landmass makes it the world's largest country, its economy accounts for only 1% of world GDP.

Washington Post

- As of 1999, Russia ranked 30th on the list of U.S. trading partners — between Colombia and Dominican Republic.

Washington Post

- Even after increasing by almost 300% in the first three months of 2000, Russia's stock market — valued at \$56 billion — is only as big as the combined emerging markets of Poland, Hungary and the Czech Republic.

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Salomon Smith Barney

Between 1991 and 1999, Moscow, home to only 6% of the Russian population, received over 60% of all Russia's foreign direct investment — and generated 40% of the government's tax receipts.

Wall Street Journal

- In 1999, Russia's \$146.2 billion in foreign debt — which included \$95.7 billion of Soviet-era debt — was equal to about \$1,000 for each Russian citizen.

Institutional Investor

- Russia's small businesses contribute only around 10% of the country's GDP. In many Western economies, small businesses produce more than 50% of GDP.

Wall Street Journal

- Companies based in Russia and Ukraine pay an average of 5.7% of their annual revenues in bribes to government officials.

EBRD

- Back in 1993, fewer than 100 corporate bankruptcy cases were filed in Russian courts. In 1998, Russian courts accepted more than 10,000 bankruptcy petitions.

Wall Street Journal

- In 1998, Russia attracted only \$1 billion in foreign direct investment — or about 0.25% of the world total.

U.S.-Russia Business Council

Top

How are Russians faring in post-Soviet times?

- Siberia and the Russian Far East — home to less than 3% of the Russian population —



accounted for 25% of the country's regular Internet users in early 2000.



Reuters

- In the December 1999 parliamentary elections, nearly two million Russian voters marked "none of the above" on their ballots. That was more than the number of votes received by 20 of the 26 political parties listed on ballots.

New York Times

- In 1996, more than 35,000 Russians died from alcohol poisoning — about 115 times more than the United States' 300 deaths.

American Enterprise Institute

- As of 1997, the life expectancy at birth for a Russian male was 61 years — below current estimates for Egypt or Paraguay.

American Enterprise Institute

- The population of Russia fell by almost 800,000 in 1999 to 145.5 million. That was the largest loss in a year since the collapse of the Soviet Union.

Agence France-Presse

Top

What role does the Russian military play?

- During the late 1990s, United States accounted for nearly 50% of weapons sales around the world. By comparison, Russia's share of world arms sales has been around 4%.

SIPRI

- During the Clinton administration's tenure, 1,500 Russian nuclear warheads have been deactivated and 300 missile launchers have been destroyed



have been destroyed.

Foreign Affairs

- Of the \$4.5 billion in direct aid given to Russia by the United States between 1992 and 1998, \$570 million — or 13% — has been weapons dismantlement, demilitarization and controlling nuclear materials.

Wall Street Journal

- Based on IMF estimates, Russian defense expenditures fell from 10.8% of GDP in 1992 to 5.2% of GDP in 1998. However, based on NATO estimates, Russian defense spending fell from 4.7% in 1992 to 2.5% in 1998.

Washington Post

March 20, 2000

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McPherson Square, 927 15th Street, NW, Washington, DC 20005
Telephone (202) 898-4760 | Fax (202) 898-4767

Exhibit 2

[\[Go To Best Hit\]](#)*Unclassified*

Document ID: CEP20011114000152
Entry Date: 11/14/2001
Version Number: 01

Region: Central Eurasia

Sub-Region: Russia

Country: Russia

Topic: DOMESTIC ECONOMIC, DOMESTIC POLITICAL

Source-Date: 11/14/2001

Government Session Reviews Amendments to Bankruptcy Law, Customs Code

CEP20011114000152 Moscow Kommersant in Russian 14 Nov 01 P 4

[Article by Petr Netroba and Galina Lyapunova: "State Equated In Rights With Other Creditors"--taken from html version of source provided by ISP.]

[FBIS Translated Text]

Amendments to the law on bankruptcy were discussed at the session of government yesterday. German Gref proposed a plan on how to transform the institution of bankruptcy from a "criminal to a civilized" one, and repealed state privileges on the right to collect debts in first priority order. Aside from this, the members of Cabinet approved the new draft Customs Code.

Mikhail Kasyanov opened the meeting of government with the following words: "The currently effective law, 'On Insolvency (Bankruptcy),' makes it possible to avoid payment of taxes and to use bankruptcy proceedings as a means for re-division of property." The Prime Minister was immediately supported by German Gref, who said: "Today, there is a practice of premeditated bankruptcy for the purpose of uncivilized seizure of property." In his words, after the adoption of this law in 1998, the number of bankruptcy cases has been growing at a rapid rate. In 1999, there were 10,000 cases filed, and in the first half of 2001--14,900 cases. Furthermore, there are frequent cases when bankruptcy proceedings are filed for insignificant debts, and the effective law does not give the debtor the right to pay them off.

Therefore, German Gref proposed revising the law in such a way that the "criminal element" would not be able to make use of it. First of all, he proposed that a new procedure be introduced in the new edition of the law--financial revitalization, so that co-owners would get the opportunity to

save their business, if they so desire, and to pay off their debts. Furthermore, he spoke out in favor of granting owners the right to participate in the bankruptcy case, including the right to receive results of the debtor's property appraisal, so as to prevent the sale of the property for a pittance. Another innovation is stricter control over the activity of arbitration-appointed managers. For this purpose, "self-regulating organizations of arbitration-appointed managers" will be created, which will control the managers.

The Minister also proposed depriving the state of the right to collect debts in first priority order. Due to the inequity which exists today, in the course of bankruptcy proceedings, the state gets almost two times more than other creditors--7 kopeks on a ruble of debt, as compared to 3.87 kopeks. "Why are you depriving us of privileges?", Mikhail Kasyanov interrupted the speaker.

"The Federal Service on Financial Revitalization and Bankruptcy (FSFO) has convinced me that the state as creditor would only stand to gain from a loss of privileges--primarily as a result of effective voting of state employees at meetings of creditors," German Gref responded.

Nevertheless, in his words, there will still be no uniform approach to bankruptcies. Additional specifics of bankruptcy procedures are being introduced for the defense industry and for natural monopolies. Plans call for giving the state the right to halt the sale of property of defense enterprises and natural monopolies for up to 3 months, so that the government could restore them or exercise the right of priority acquisition of property.

Mikhail Kasyanov liked the proposals of his minister. He approved them, and then called on Mikhail Vanin to report on the new edition of the Customs Code. While the chairman of the GTK [State Customs Committee] was coming up to the podium, Mikhail Kasyanov said that the current edition of the Customs Code has been in effect since 1993, and that part of its procedures must be clarified "with consideration for Russia's strategy toward greater integration into the world community." According to the Prime Minister, the customs procedures must be unified and simplified. At the present time, most of the customs procedures are regulated not by the code itself, but by various sub-legal statutes. As a result, today there are around 4,000 normative-legal statutes of the GTK operating in addition to the code, which not only contain a great many internal contradictions, but often change the essence and letter of the law. In response to this, Mikhail Vanin announced that the code has been re-written, and that its direct effect has been ensured. After which, he gave the Prime Minister a 200-page volume comprised of 460 articles. Mikhail Kasyanov had trouble holding such a massive document in his hand. Placing it on the table, he quickly verified all the key articles of the code, and immediately approved it for submission to the State Duma.

[Description of Source: Moscow Kommersant in Russian -- Informative daily newspaper purchased by Boris Berezovskiy in 1999 and often reflecting his viewpoint.]

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Exhibit 3

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Document ID: CEP20011026000319

Entry Date: 10/26/2001

Version Number: 01

Region: Central Eurasia**Sub-Region: Russia****Country: Russia****Topic: CRIME, DOMESTIC ECONOMIC****Source-Date: 10/26/2001****Russian Federal Bankruptcy Service Chief Trefilova on Bankruptcy Law***CEP20011026000319 Moscow Vek in Russian 26 Oct 01*

[Interview with Tatyana Ivanovna Trefilova, administrator of Federal Financial Recovery and Bankruptcy Service, by Aleksey Kazakov; place and date not given: "The Bankruptcy Law Is More Alarming Than the 'Pyramids'" -- taken from HTML version of source provided by ISP]

[FBIS Translated Text]

[Kazakov] Tatyana Ivanovna, we know that the government will be submitting a new draft of the law "On Bankruptcy" to the State Duma for consideration at the end of October. The present law, which is objectionable to many people, is still in force, however, and the number of bankruptcies has risen dramatically in recent years. Does this worry you?

[Trefilova] No, even though there are already 33,798 reported cases of bankruptcy this year. The increase in their number is no cause for alarm in itself. Bankruptcy proceedings have been instituted against only 1 percent of all Russian enterprises, after all, whereas the figure in prosperous Germany, for example, ranges from 3 to 5 percent.

Something else bothers me. The law in its present form has been turned into an instrument of illegal enrichment, which is even more alarming than the financial pyramids. In some bankruptcy proceedings today, the creditor gets much more money than he invested in the enterprise. This is now possible because the arbitration receiver has exclusive powers and can act exclusively in the creditor's interest. By law, the receiver is chosen by the creditors or owners. If they unite forces or if one creditor is highly influential, they usually choose an administrator who will work for the client. This provision of the current law provides incalculable opportunities for various

machinations.

A delegation representing the work force of the Orgsintez Chemical Association in Tula Oblast recently came to see me, for example. Some kind of managing company was working with the receiver there during the bankruptcy proceedings. It spent a certain amount of money on the enterprise during the bankruptcy proceedings, gaining the right to collect this debt from the enterprise before any of the creditors. After the end of the bankruptcy proceedings, the main creditors decided to sell the gigantic enterprise--not at auctions open to the public, but by the terms of a private contract to that same managing company that had invested in Orgsintez, and at a price having no relationship to its market value. This gave the managing company a chance to recover its money and acquire a huge chemical enterprise absolutely for free. Meanwhile, creditors in the first through fifth categories received absolutely nothing. Now our receiver has to declare that transaction invalid.

[Kazakov] You must agree, however, that it is an ingenious plan, worthy of Ostap Bender himself....

[Trefilova] It is very upsetting. The state incurred a great loss, and it was unable to influence the process. By law, after all, the state is represented only at the first meeting of the creditors and has only one vote, after which it is left out of the proceedings.

We know of cases in which bankruptcies occurred even in the absence of debts. This happened at the Yessentuki Plant, which produces mineral water and also uses this water to make vodka. The bankruptcy proceedings there began after the territorial tax service reported a debt the enterprise owed to the budget. As soon as the RF Ministry of Taxes and Levies reported the absence of any debt at the beginning of February this year, the FSFO [Federal Financial Recovery and Bankruptcy Service] petitioned the court for the termination of the bankruptcy proceedings. Nevertheless, the arbitration administrator kept the enterprise under receivership. Under pressure from us, that receiver resigned. Another administrator, who took his place the following day, did something even more intriguing, however. He used the debtor's money to hire an auditing firm, which started auditing the enterprise's records for the last 10 years. This is how the bankruptcy proceedings went on for eight months in spite of the absence of any debts.

We revoked that receiver's license too, but the auditing firm actually had found some irregularities. The enterprise had borrowed 5 million rubles from the Stavropol Division of the Ministry of Finance in 1992 and still had not repaid the debt. That division quickly sold the debt to a third party, and now the enterprise does have a creditor. The owner is willing to pay, but the creditor will not accept the money. We have spent a colossal amount of time and effort on this case and we have even asked the President's Representative Plenipotentiary in the Southern Federal District for help, but all of our efforts have been futile so far.

[Kazakov] Would you say that the level of criminalization in bankruptcy proceedings is low, average, or high?

[Trefilova] It is extremely high. The receiver often becomes a weapon in the hands of the criminal underworld. Yevgeniy Vetkin, an employee of a territorial FSFO agency, was killed this year in Dzerzhinsk in Nizhniy Novgorod Oblast. The murder of our colleague enabled us to gain entry to the Orgsteklo Open Joint-Stock Company with personnel of the regional organized crime directorate and impound its records. We were shocked by the outrageous nature of some of the transactions. In the space of a single day, for example, Orgsteklo bought raw material for one

amount, resold it to another firm for the same amount, and then bought it back, but for three times as much money. That is how all of the enterprise assets were diverted within six months. The FSFO reported the evidence of deliberate bankruptcy, and two criminal investigations were launched against the Orgsteklo and Korund open joint-stock companies on 13 October.

[Kazakov] Has the reapportionment of property really become so widespread and so uncontrollable that the FSFO can do nothing even in cases of obviously criminal bankruptcies?

[Trefilova] That is not quite true. There have been some cases in which we have managed to secure compliance with the law after considerable effort. The Kyshtym Copper-Smelting Plant is one example. No one needed this little plant, but its assets included shares of stock in another, quite appealing enterprise. A prominent oligarch bought the Kyshtym Plant, but a petition for bankruptcy was filed against him the very next day. He learned that the plant had owed the budget 2.5 million rubles for three years. The new owner naturally paid the money owed to the budget and presented the payment document from his bank to the court. They told him, "You have not proved that the money was deposited in the tax inspectorate's account today." The Chelyabinsk Oblast Appeals Court refused to hear the complaint, and we only managed to terminate the proceedings in this case because the complaint was heard in another region--in Yekaterinburg.

[Kazakov] Some people say that the functions of the FSFO include the augmentation of budget income and the correction of privatization errors. Some analysts believe that the institution of bankruptcy can be used to recover the state property that was illegally acquired at the time of the check auctions....

[Trefilova] No, it is not our job to nationalize property. We only help in replacing ineffective owners with more effective ones. The FSFO also does not strive to augment the budget by selling bankrupt enterprises. That is why I want to warn enterprise managers that this is the last year they will be offered a chance to restructure their debts.

[Kazakov] By definition, bankruptcy proceedings exist so that creditors can recover as much of the amounts owed to them as possible. Who receives money as a result of bankruptcy proceedings, and how much do they receive?

[Trefilova] Regrettably, we cannot say that the current law secures the equitable return of funds to all creditors. We calculated how much was recovered on the average and by whom during the first six months of the year. The results of our calculations were discouraging. Creditors of the first category, disabled and retired individuals, the first in line for the collection of debts, received 15.5 kopecks on the ruble, and creditors of the second category, enterprise employees receiving a salary, recovered 15 kopecks on the ruble. The creditor fourth in line, the state, received 7 kopecks on the ruble, and commercial creditors, who are fifth in line, received 3 rubles and 84 kopecks on the ruble! Do you see the difference? The situation in some regions is even worse. Creditors of the fourth category in the Volga Federal District received 1.85 rubles on the ruble, and creditors of the fifth category received only 1 kopeck. That is justice for you.

[Kazakov] This suggests that saving a viable business and paying off creditors depend almost completely on the receivers. What bothers you about their training?

[Trefilova] By law, the creditor chooses the receiver. A class-A receiver's license requires only 107 hours of training. The person's prior education is of no relevance whatsoever in the

application process. Many students of several vocational technical institutes in Moscow have enrolled in these courses recently. It seems odd that I am not entitled to refuse them admission to the courses or reject their license applications. They take a few courses and then they blithely set off to manage enterprises.

[Kazakov] So what? Lenin, after all, once said that a cook could govern the state....

[Trefilova] You must know that was an ironic statement. When former gynecologists and stomatologists get a license, we cannot complain too much. We also get applications, however, from stablemen, veterinary lab technicians, and class "C" drivers. This does not mean that all of our receivers fall into this category. We have remarkable experts, who have several academic degrees, legal expertise, and managerial experience, but we still have a long way to go before we can catch up with the civilized countries. In Canada, for example, crisis prevention management is one of the highest-paid professions. Most of the people in that field have degrees in law and economics. They also spend three years studying arbitration and receivership and have to pass an exceptionally difficult examination.

If a receiver in England does not meet certain requirements, corresponding to exceptionally high standards, he has to pay a fine for "misrepresentation." The organization of receivership administrators pays a second fine for his mistake. Our receivers, on the other hand, are never held liable for damages. There have been only three convictions in the 1,500 cases of deliberate bankruptcy here.

[Kazakov] If the law is that bad, perhaps it should be suspended temporarily....

[Trefilova] I think the current bankruptcy law is the worst law ever passed in all of Russia's history. A new draft is being compiled as quickly as possible. Unfortunately, too much time will be wasted on debates and deliberations.

[Kazakov] Will the new draft take the distinctive features of Russia's economic development into account?

[Trefilova] There is no question that certain features have to be taken into account. The 322 enterprises constituting the basis of local budgets that were affected by this law are one example. The leader of one region recently asked us to delay the bankruptcy of one such plant because people who had lost their jobs and their means of making a living were starting to eat livestock feed. There are some other distinctive features as well. I am particularly worried about the defense industry. I went to one of the Siberian enterprises producing ballistic missiles. The plant definitely is bankrupt, but it is the state that is essentially in debt here. That is why I hope the new law "On Insolvency (or Bankruptcy)" will not turn the country into a wasteland.

[Description of Source: Moscow Vek in Russian -- weekly political newspaper with links to Konversbank and the Ministry of Atomic Energy]

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Exhibit 4

Country Commerce Russia

Released November 2001

The Economist Intelligence Unit
The Economist Building
111 West 57th Street
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USA

new trend has contributed to a shortage in clerical applicants in offices, such as receptionists and secretaries, particularly where foreign-language skills are required.

Unemployment continues to decline. It fell by 1.3m from July 2000 to July 2001, to 5.9m, according to the International Labour Organisation definition. However, the decline was achieved by a falling rate of economic participation: the number of economically active persons fell during the same period from 72.3m to 71m. There are no more shortages of qualified workers in the range of professions that were in high demand in the recent past—investment and investment-related research, finance, banking, logistics, accounting and advertising.

One repercussion of the recent crisis, however, is the shortage of Russian labour for senior management positions. Many Russians who held management positions were laid off or sent abroad at the end of 1998, leading to a significant reduction of workers with at least four years of work experience. Gaps have thus emerged in the workforce structure in key positions—such as for financial controllers and officers. Another significant feature of the post-crisis employment industry is the drive to hire Russian personnel wherever possible. Nevertheless, Russia still lacks a good supply of capable and experienced managers. For those with strong experience, salaries are comparable to Western European levels.

Russia's labour force is relatively well educated, with high levels of literacy. Although the proportion of young people enrolled in post-secondary education decreased somewhat in 1992–95, this trend has since reversed. The number of university and college students per 1,000 persons aged 17–24 since 1997 has been exceeding levels recorded at the beginning of the 1990s. Increasingly, universities and business schools (12 in Moscow alone) are offering Western-style MBA programmes. The level of computer literacy is also growing quickly. Training, however, remains an undeveloped area: despite strong academic backgrounds, practical training is rare. Consequently, many foreign investors set up substantial in-house training programmes for their workers in Russia.

10.2 Labour law. The Labour Code of the Russian Federation (first adopted in December 1972, last comprehensive revisions in September 1992) is the fundamental law governing workplace issues. Individual articles have been revised in a piecemeal manner over the past ten years. The code provides for a high degree of job security and has been criticised by some as unnecessarily restrictive vis-à-vis employer rights.

A new draft labour code passed its first reading in the Duma in July 2001. There should be an-

other in December 2001, but it has yet to be scheduled. As it now reads, the draft will greatly lessen the role of trade unions in regulating labour relations and strengthen the employer's position.

Other relevant pieces of legislation are "On Trade Unions, Their Rights and the Guarantees for Their Activities" (1996); "On Collective and Tariff Agreements" (1992); and "On the Procedure for Collective Labour Dispute Resolution" (1995). The most recent piece of legislation is the law "On Fundamentals of Health and Safety" (1999), which replaced one adopted in 1993. The new law grants more rights to the relevant authority—the State Labour Inspectorate—to ensure that employers comply with the provisions of Russia's labour legislation.

Russian labour-safety laws apply to all enterprises and all employees, regardless of their origin (with the exception of embassies and institutions of similar status). A company's management invites an outside consultancy or law firm to conduct what is typically referred to in the West as a human-resources audit. Such audits are not voluntary in Russia. The law grants the State Labour Inspectors the authority to take the following steps:

- conduct inspections on compliance with Russian labour legislation;
- request and obtain the related documents from employers;
- issue mandatory directives requiring employers to take steps to eliminate any breaches of the labour-protection requirements;
- suspend from work those individuals who have not completed training on labour-protection and safety measures;
- undertake administrative investigation; and
- impose administrative penalties on employers for violating the labour-safety requirements.

At the same time, the fines that the labour inspectorate can impose are more or less symbolic, ranging from one minimum monthly salary (about Rb300, or \$10) to 100 minimum monthly salaries (about \$1,000). The minimum monthly wage was increased twice in 2001, equalling about \$10 in November. Although more increases have been promised, they have yet to be committed to paper.

Employment contracts. Written employment contracts are mandatory but are often not the norm. Article 17 of the Labour Code stipulates that employment contracts be signed for an indefinite period, for a fixed period of time up to five years or for a period of time necessary to complete a specific assignment. A probationary period must be specified in the contract. It can last up to three months, and in special conditions agreed with the relevant union, up to six months. Unless the employee is notified prior to the end of this period, he/she au-

tomatically becomes a permanent employee.

Negotiating fixed-term contracts is now limited to where the very nature or conditions of the work make an indefinite contract impractical or contrary to the worker's interests, and to certain other instances specified by law (10.7). The contract is considered extended indefinitely if the worker continues to work after the expiration of the fixed-term contract. Article 31 of the Labour Code stipulates that workers seeking to terminate a permanent employment contract must give at least two weeks notice. Employees may be dismissed only for cause (10.7).

Under Article 15 of the Labour Code, a contract must include a job description and specify place of work, period of work and starting date, as well as salary and benefits, the system of compensation, holidays, working hours and means of dispute resolution. Terms of the labour contract must comply with the minimum requirements stipulated in the Labour Code. Employers may not transfer employees to another workplace or location without the employee's agreement. Exceptions are outlined in Articles 25–27. The employee's consent is not required when, for example, in an emergency, the transfer is for a period of less than a month.

Employees must be notified two months in advance of any change in their duties and otherwise may not be asked to perform tasks outside those detailed in their job description (Articles 24–25).

Equal-opportunity employment. Non-discrimination in employment is fixed in the Labour Code. Article 16 prohibits any direct or indirect restrictions or privileges in employment on the basis of sex, race, nationality, language, social origin, income status, place of residence, religion, political convictions, membership in social organisations or other circumstances not related to the professional skills and qualities of a worker. Under Article 170, written reasons must be given for an employer's failure to hire a woman with a child younger than three years old or a single mother with a child younger than 14 years of age.

But the code's application is often very far from the high theoretical level of worker protection. Employers often find ways to get around the Labour Code's strict provisions by avoiding formal contracts or signing fictitious agreements.

In order to create effective barriers against illegal employment and tax avoidance, the Ministry of Labour drafted a new law, "On Individual Contracts". The draft was submitted to the Duma in 1997, but it had still not been adopted by November 2001. Given the Duma's changing priorities over the last four years, it is unlikely the draft will get much attention in the near future.

The federal law on worker safety that took force in July 1999 alleviated restrictions on hiring individuals 18–21 years of age to work in "dangerous

and harmful conditions". At the same time, many employers must spend more on worker safety; all production and maintenance enterprises with more than ten employees must establish worker safety councils.

10.3 Industrial labour. Union membership in Russia has fallen dramatically in the last few years, especially in retail trade, banking and finance, and personal and business services. As enterprises are privatised and restructured, many workers have withdrawn from the relevant trade unions.

The International Confederation of Free Trade Unions united the following three leading unions in 2000:

Federation of Independent Trade Unions assumed almost the entire organisational structure and staff of the former union confederation of the USSR. Its officials say the federation incorporates 78 regional and 43 sector-specific trade unions and claims a total membership of more than 35m workers.

All-Russian Confederation of Labour incorporates six sector-specific and five regional trade-union organisations and unites 1.27m workers according to official data of the American Centre for International Labour Solidarity.

Russian Confederation of Labour incorporates five sector-specific and four regional trade-union organisations and unites 1.25m workers (also according to official data of the American Centre for International Labour Solidarity).

Association of Social Trade Unions (SOTS—PROF) is the largest independent union, but it counts only a few hundred thousand members. SOTS—PROF unites workers' organisations from various industries. This confederation supports market-oriented reforms and actively seeks to use tactics employed by unions in the West to defend its members' interests.

The official numbers of strikes, and workers involved in them, continue to fall precipitously. In January–July 2001, 24,000 man-days were lost because of industrial action, compared with 190,000 during the same period in 2000. No strikes were registered in the first two quarters of 2001. In general, the incidence remains confined to a few industries. Wage arrears were the main cause of strikes during the years of economic reform. President Putin identified the full payment of the state's social debts as a key priority in 2000, and disputes have declined since. Following the first reading of the new draft labour code (10.2), however, a significant number of protests have been planned for late 2001.

Procedures for avoiding and settling strikes are specified in Article 14 of the Labour Code (although Article 14 has proved ineffective) and in

Exhibit 5



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Country: Russia
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COUNTRY COMMERCIAL GUIDE RUSSIA

FISCAL YEAR 2002

Prepared by the
 United States & Foreign Commercial Service
 in cooperation with the
 State Department, USDA and the Treasury Department of the U.S. Embassy,
 Moscow July 15, 2001
 CONTENTS

1. Executive Summary
2. Economic Trends and Outlook
3. Political Environment
4. Marketing U.S. Products and Services
5. Leading Sectors for U.S. Exports and Investment
6. Trade Regulations and Standards
7. Investment Climate Statement
8. Trade and Project Financing
9. Business Travel
10. Economic & Trade Statistics
- Appendix A: Country Data
- Appendix B: Domestic Economy
- Appendix C: Trade Statistics

distortions in the economy, such as uneconomically-low domestic energy prices, and make these industries better able to finance the large-scale equipment purchase needed for their renovation. In August 2001, President Putin approved the creation of a Unified Tariff Agency using the structure of the Federal Energy Commission as a model, to set tariffs on electricity, railroads and oil. The tariff issue is sensitive, as many poor Russians have come to rely on subsidized energy.

Tax Reform:

Russia is deeply involved in creating a tax system which is comparable with those of advanced, market economies, and in bringing some relief from levels of taxation which throw out of balance the government's needs for revenue and businesses' needs to grow. The reform process is both well advanced and sweeping in its scope, impacting government funding at all levels. Significantly, the driving force behind tax reform now comes from within the government and from Russian entrepreneurs, rather than from the international financial community and foreign consultants. Much of the progress is due to the determination and pragmatism of the Putin Administration, and to the constructive engagement of the Duma.

In view of the enormity of the task, and in recognition of the on-going and sometimes heated debate in the legislature, the new Tax Code has been adopted in stages. Part One of the Tax Code, implemented in 1999 dealt largely with administrative issues. Part Two, which came into effect in January 2001, covered Value Added Tax, Excise Duties, and Personal Income Tax, among others. Personal Income Tax was reduced from rates as high as 30 percent to a flat rate of 13 percent, in a bold move designed to improve compliance and thus tax revenues. With personal income tax collections in the first half of 2001 exceeding expectations, the strategy appears to be successful. Similar success is hoped for in the all-important Profits Tax Bill, passed in July 2001, which reduces tax on corporate profits from 35% to 24%, one of the lowest rates in Europe.

With the bulk of tax reform legislation now passed into law, and as the uncertainties become resolved, attention is focusing on implementation. Much work still lies ahead in gearing up the tax authorities, and the accounting profession to operate within the new legal structure.

Reform of the 'Natural Monopolies':

The process of reform of the 'natural monopolies' – electrical power generation and distribution, gas extraction and distribution, and rail transportation – moved forward in May 2001. The GOR approved plans to restructure the electricity monopoly, Unified Energy Systems (UES), and the Railway Ministry. In the same month the long-time Chairman of Gazprom, the gas monopoly, was replaced with a man viewed as more open to reform, who has moved quickly to open the company's finances to closer outside scrutiny. While UES and Gazprom are privatized, the GOR is a major shareholder in each.

Together these natural monopolies account for around 13% of Russia's GDP. However, they play a much larger role in the economy in terms of price setting

and overall asset allocation. They have traditionally delivered energy and transportation to Russian businesses and consumers at uneconomically low prices, which has distorted the economic landscape. Implementation of the reform plans in the natural monopolies, and the end of unrealistically cheap energy and transportation, should act as a catalyst for widespread enterprise restructuring throughout Russia, and increase the country's long-term growth potential.

Under the electricity and railway restructuring plans, the government will retain control of these unified infrastructure networks, while creating competition by opening access to them on an equal basis to competitors (independent rail operators or electricity generators) in return for an access fee.

Judicial Reform:

While the trend towards a more independent, transparent and impartial judicial system is generally positive, it cannot be taken for granted that several regional or local courts will deliver judgements free from financial or political persuasion. President Putin, whose package of judicial reform proposals is working its way through the government, has repeatedly stressed that enforcement of the rule of law is a high priority of his administration, and at the federal level the record is good. It may still be some time, however, before some regional and local courts fall into line with Putin's desired "dictatorship of the law."

Labor Code Reform:

In a significant step forward in reforming Russia's Soviet-era Labor Code, the Duma approved the first reading of a new compromise Labor Code, after heated debate, in July 2001. The current Labor Code, enacted in 1971, is clearly inappropriate for a market economy and an evolving pattern of labor relations. The draft new Labor Code appears to establish greater flexibility in defining labor relations while retaining some basic guarantees for workers. If enacted, it would give private employers the right to fire employees without prior approval of trade unions, and would limit trade union participation in collective bargaining negotiations to those unions representing at least 51 percent of the employees at an enterprise. The draft Code would also establish a minimum monthly wage at the official subsistence level – currently RUR 1,400 (\$48) per month, would retain the 40-hour working week with special provisions for overtime work, and would allow for the payment of wages in-kind. However, the draft Code is a highly contentious issue, and many modifications can be expected before it passes its final reading in the Duma.

Pension Reform:

Russia's current state pension system, created in the early 1990s, in essence transfers funds from existing workers to retirees. It is deemed inadequate to meet the requirements of those existing workers upon retirement, especially in light of Russia's changing demographics (see below). Plans are currently under consideration, which will more closely identify individuals' contributions with their benefits upon retirement. The probable outcome will be a pension system with three component; a basic guaranteed state pension for all citizens, a second 'accumulated pension rights' portion, and a third amount accumulated in private, personal accounts. Final decisions on the structure of the reformed pension

treatment and GSP status from the United States. A customs union with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan has been formed, but is not operational.

CHAPTER 7. INVESTMENT CLIMATE STATEMENT:

The Russian economy continues its first period of real growth since 1991, although growth rates in late 2000 and early 2001 have slowed down. Investment from both domestic and foreign investors is on the increase, although not growing as fast as was the case in late 1999 and early 2000. Despite some efforts by the Russian government to address persistent weaknesses in the investment climate, Russia remains a challenging environment for foreign investors. President Putin's government has shown a strong interest in attracting foreign investment and has promised to enact structural changes that would improve the environment for investors. However, most of these key steps have not yet been enacted.

Openness to Foreign Investment:

During Putin's tenure as president, the GOR has strongly stressed attracting foreign direct investment, particularly through structural reforms. While many regions have also developed laws and programs to attract FDI, there is increasing scrutiny of regional investment incentives. In practice, large investors continue to receive incentives. But these incentives are usually outbalanced by chronic severe shortcomings in the investment climate. High tax levels and extremely high costs in complying with Russian tax authorities, inconsistent government regulation, the inability of some investors to obtain redress through the legal system, and crime and corruption all dissuade investors. These systemic problems are abetted by chronically weak purchasing power, lack of financing sources, as well as concerns about long-term economic and political stability, which discourage investment.

The 1991 investment code guaranteed foreign investors rights equal to those enjoyed by Russian investors. This principle of national treatment was confirmed by the July 1999 law on foreign investment. The 1999 law includes a grandfather clause that theoretically protects certain large investments (over approximately USD 41 million) from unfavorable changes in tax or other legislation for a period of seven years. However, in practice, these protections have yet to be provided, for implementing regulations are still lacking. Tax and customs administrations still refuse to implement the law's provisions until corresponding changes have been made in tax and customs legislation, so these protections remain a dead letter. On the positive side, a draft law, which would have specified the sectors where foreign investment would be either prohibited or could be restricted, failed Duma passage in late 2000, and the GOR now considers this draft law effectively dead.

Explicit restrictions on foreign direct investment in Russia have been limited to specific sectors so far. A 1998 law on the aerospace industry limits foreign

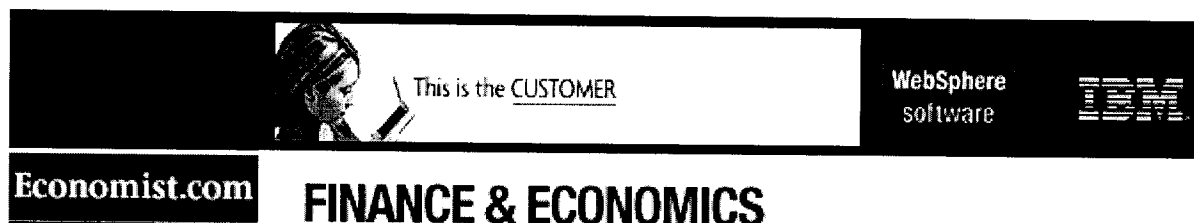
ownership to 25 percent of an enterprise. Foreign ownership in the natural gas monopoly Gazprom is technically limited to eleven percent but use of joint ventures to purchase additional shares has allowed Gazprom to pursue its strategic partnership with the German company Ruhrgas without legal problems. A 1999 law permitted majority-foreign-owned insurance companies to operate, but prohibits them from selling life or compulsory insurance, and sets a 15 percent ceiling on foreign charter capital in the entire insurance sector. A 1998 law limits foreign investment in the electric power giant Unified Energy Systems to 25 percent or less; although it has not been enforced to date.

In the past, the GOR has limited foreign bank capital to 12 percent of total banking capital, but the Central Bank has recently proposed an upward revision of this restriction, and has been vague on whether Russia law would make such a restriction enforceable.

Prior approval is required for investment in new enterprises using assets of existing Russian enterprises, foreign investment in defense industries (which may be prohibited in some cases), investment in the exploitation of natural resources, all investments over 50 million rubles, investment ventures in which the foreign share exceeds 50 percent, or investment to take over incomplete housing and construction projects. Additional registration requirements exist for investments exceeding 100 million rubles. Projects involving large scale construction or modernization may also be subject to expert examination for environmental considerations. In sectors which require licensing (e.g. banking, mining and telecommunications), procedures often can be lengthy and non-transparent. The government has submitted to the Duma legislation which would greatly simplify business registration procedures, and sharply reduce the number of sectors subject to licensing. Although the situation has improved over the past few years and a new land code permitting sales of non-agricultural land is under active discussion in the Duma, foreigners still encounter significant restrictions on ownership of real estate in some cities and regions in Russia. Investors in some sectors also may face restrictions requiring that a certain percentage of staff be Russian citizens. However, given the small size of expatriate staffs in most operations here, these restrictions have had little practical consequence.

Irregularities and lack of transparency in the privatizations of the mid-1990s limited foreign participation in many privatizations, so key sectors (oil, gas, precious metals) were effectively closed to foreigners. Subsequently, some foreign investors have bought shares of privatized enterprises in secondary transactions, including oil and gas. Foreigners have participated in subsequent oil and gas sector privatization auctions, although some foreign firms participating appear to be affiliates of Russian companies. Foreign investors participating in Russian privatization sales often are confined to limited positions and face problems with minority shareholder rights and corporate governance. The treatment of foreign investment in new privatizations is likely to remain inconsistent. Roughly three-quarters of the Russian economy has been privatized, although many privatized enterprises continue to have significant state-held blocks of shares. Some privatization of remaining state holdings is scheduled to continue, both as part of overall government policy, and at local, regional and federal levels as governments seek additional cash. Some of these

Exhibit 6



Russia's economy

Scratch and sniff

Feb 14th 2002 | MOSCOW
From The Economist print edition

Russia's economic recovery is more fragile than it seems

BY THE dismal standards of the past, it looks splendid. Russia's economy grew by a respectable 5% last year, the budget was balanced, inflation came down and the currency stayed steady. Big cities such as Moscow are visibly booming. There is a stable government, plugging away at needed reforms. Foreign interest is rising, and the main share index has more than doubled since the start of last year.

Good news for the band of financiers peddling Russian stocks and bonds for the past decade. With luck, share prices may even crawl back to where they were in the heady years before crisis, default and devaluation in 1998. Still, a bunch of worries remain.

One is that two temporary factors largely account for the recovery since 1998: a collapse in the value of the rouble and a tripling of the oil price. They brought a windfall to exporters, and gave local manufacturing companies a competitive boost. Because both bits of good fortune have now run out, the economy ground to a halt or even shrank in the fourth quarter of 2001, according to official estimates.

An unusually critical study by the World Bank highlights three problems. One is the failure to diversify. Christof Rühl, the report's author, argues that the Russian economy is overly dominated by large firms, mostly dealing in raw materials. This does not change, because of bureaucratic barriers faced by new businesses, and because no proper banks channel money from rich companies to deserving ones. Rather, spare money goes to chums in other bits of the same empire. Russia needs to emulate resource-rich countries, such as Australia and Norway, which have over time developed broader-based economies. Russia's main claim to future first-world status, its educated workers, counts for little if they do not find productive work.

That touches on the second big problem, low productivity growth. Russia's recovery from the post-Soviet output crunch, using under-employed workers and spare capacity, flattered these figures. Still, Mr Rühl believes that this phenomenon too has run its course. In future, higher productivity means either more investment or better organisation of work.

With isolated exceptions, there is little sign of that happening. This is all the more urgent, because Russian companies now face harsher constraints. Capital has a real cost. The prices of energy and other inputs are rising relentlessly. The tax regime is getting clearer and tougher.

To be fair, reformers in the government are aware of the problem. President Vladimir Putin himself has bewailed the shortage of small businesses—their numbers, according to official statistics, may even be dropping. On paper, recent and planned reforms look like a coherent attempt to create a clear, friendly environment for business. But there is a third problem: implementation.

Under Mr Putin, the political system has become more obedient, and laws whiz through parliament. The hitch is what happens then. Some simple changes, such as lower tax rates, do take effect. But greedy and incompetent bureaucrats are hard to change. One new law limits the number of inspections (by health, hygiene, fire-safety and other officials) that a business may endure. The joke is that, instead of scores of inspections every year, managers will in future have only two—and each will go on for six months.

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Exhibit 7

Tuesday, February 26, 2002



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Legislative Tracking

Friday, 19 October 2001

VEDOMOSTI (19-10-2001)

Amendments to the Law on the Product Sharing Agreement

Yesterday the State Duma passed in the first reading amendments to the law on the product sharing agreement. Now investors will have to disclose information on their projects, including the information on the parties to an agreement, the conditions and procedure for sharing production, and information on taxes and payments.

The Concept of a New Law on Currency Control and Currency Regulation Proposed by the Ministry of Finance

The Ministry of Finance has submitted its concept of a new Law on currency control and currency regulation to the government. The currency regulation system is supposed to become more transparent according to the new law. The obligation to sell hard currency proceeds and the permissive order for performing most capital transactions are recognized as necessity. Capital transactions are to be controlled if they exceed a certain sum, the amount of which is not stated by the law. It is also proposed that officials have the right to monitor the situation and to introduce liberal amendments to the law, for example, amendments regarding the 50% norm for the obligatory selling of hard currency proceeds. According to the concept the complete abolishment of this

Back Issues

Issue 18/10/2001
Issue 17/10/2001
Issue 16/10/2001
Issue 15/10/2001
Issue 12/10/2001
Issue 11/10/2001
Issue 10/10/2001
Issue 09/10/2001
Issue 08/10/2001
Issue 05/10/2001
Issue 04/10/2001
Issue 03/10/2001
Issue 02/10/2001
Issue 01/10/2001
Issue 28/09/2001
Issue 27/09/2001
Issue 26/09/2001
Issue 25/09/2001
Issue 24/09/2001
Issue 21/09/2001
Issue 20/09/2001
Issue 19/09/2001
Issue 18/09/2001
Issue 17/09/2001
Issue 14/09/2001
Issue 13/09/2001
Issue 12/09/2001
Issue 11/09/2001
Issue 10/09/2001
Issue 07/09/2001
Issue 06/09/2001
Issue 05/09/2001
Issue 04/09/2001
Issue 03/09/2001
Issue 31/08/2001
Issue 30/08/2001
Issue 29/08/2001
Issue 27/08/2001
Issue 17/08/2001
Issue 16/08/2001
Issue 15/08/2001
Issue 14/08/2001
Issue 13/08/2001
Issue 10/08/2001
Issue 07/08/2001
Issue 06/08/2001
Issue 03/08/2001
Issue 01/08/2001
Issue 31/07/2001
Issue 30/07/2001

concept, the complete abandonment of the norm and other currency limitations can take place in 3-5 years.

Three Time Periods For Export VAT Reimbursement

The Ministry of Taxes and Levies is preparing amendments to the Tax Code regarding the regulation of the procedure and time period for the export VAT reimbursement. The latter are as follows:
1 month - for traditional exporters (those who export goods permanently); 6 months - for others. No time period is applied (until the criminal case - usually started by the tax police - and further court proceedings are completed) - for those who are suspected of committing economical crimes.

The Draft Law On Guaranteed Deposits

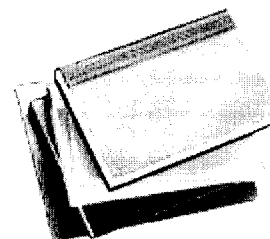
The Ministry of Trade and Economic Development has prepared the draft law regarding guaranteed deposits. The draft is expected to be submitted to the government on Monday, 22 October 2001. According to the draft, banks' assignments will be considered as state funds, which will be controlled by specially established Agency with the status of a state enterprise. In the event that a major bank goes bankrupt and the Agency cannot pay off its investors, the state will have to pay all the debts from the budget.

NALOGI (No. 38 (254), October 2001)

The Letter of the Ministry of Taxes and Levies of the RF "On the Responsibility for Violating Tax Legislation"

Information on the Letter of the Ministry of Taxes and Levies of the RF No. ShS-6-14/734, dated 28 September 2001, "On the Responsibility for Violating Tax Legislation" has been published. The Letter clarifies the procedure for the application of certain provisions of the Tax Code referring to the responsibility for violating the tax legislation. In particular

Issue 30/07/2001
Issue 27/07/2001
Issue 25/07/2001
Issue 23/07/2001
Issue 20/07/2001
Issue 19/07/2001
Issue 18/07/2001
Issue 17/07/2001
Issue 16/07/2001
Issue 13/07/2001
Issue 12/07/2001
Issue 11/07/2001
Issue 10/07/2001
Issue 09/07/2001
Issue 05/07/2001
Issue 04/07/2001
Issue 03/07/2001
Issue 28/06/2001
Issue 27/06/2001
Issue 25/06/2001
Issue 22/06/2001
Issue 21/06/2001
Issue 20/06/2001
Issue 19/06/2001
Issue 18/06/2001
Issue 15/06/2001
Issue 14/06/2001
Issue 13/06/2001
Issue 09/06/2001
Issue 08/06/2001
Issue 06/06/2001
Issue 05/06/2001
Issue 04/06/2001
Issue 01/06/2001
Issue 31/05/2001
Issue 30/05/2001
Issue 24/05/2001
Issue 23/05/2001
Issue 21/05/2001
Issue 17/05/2001
Issue 15/05/2001
Issue 14/05/2001
Issue 26/04/2001
Issue 25/04/2001
Issue 24/04/2001
Issue 23/04/2001
Issue 20/04/2001
Issue 19/04/2001
Issue 17/04/2001



violating the tax legislation. In particular the following is mentioned:

• The procedure for imposing fines for not submitting a tax declaration in time to a tax authority, where a taxpayer is registered;

• The responsibility measures implemented towards tax agents for not keeping tax cards, which reflect individuals' income and income tax;

• The responsibility measures implemented towards tax agents for not submitting or violating the time period for submitting the information on the income, paid to individual entrepreneurs, etc.

The Teletype of the State Customs' Committee of the RF "On the Customs Regime of Goods Processing"

The Teletype of the State Customs' Committee of the RF No. TF-26759, dated 4 October 2001, "On the Customs Regime of Goods Processing" clarifies that starting 1 October 2001, the customs clearance of Russian oil and oil products, placed under the customs regime of goods processing outside the customs territory of the RF, is not to be performed.

If you would like advice with regard to any of these issues, please do not hesitate to contact us - the Tax and Legal Department of Deloitte & Touche CIS at (095) 933-7300. The Legislative Tracking Service is maintained by professionals from Deloitte and Touche CIS. This service is for informational purposes only, and the application of its contents to specific situations will depend on the particular circumstances involved.

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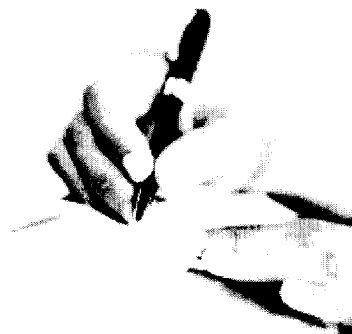
Tuesday, February 26, 2002



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Friday, 07 December 2001

ROSSISKAYA GAZETA (06-12-2001)

The Exchange of Old Banknotes Has Been Prolonged

The Order of the President of the Russian Federation No. 1387, dated 3 December 2001, "On submitting changes to the Order of the President of the Russian Federation No. 822, dated 4 August 1997. "On changing the nominal cost of Russian banknotes and the scale of prices" has been officially published. The Order has prolonged the time period for exchanging old banknotes up to the year 2003.

BULLETIN OF THE BANK OF RUSSIA
(No. 74, 05-12-2001)

The List of Companies and Individuals Involved in Financing Terrorism

The Central Administration of the CBR has published the Appendix No. 127-T, dated 30 October 2001, to the Instruction No. 136-T, dated 28 November 2001, which contains the List of companies and individuals that are considered to be involved in financing terrorism. The List was published by the President of the USA, George Bush, on 7 November 2001. The Government of the USA has taken measures regarding blocking the assets of the companies and individuals on the List.

Back Issues

Issue 06/12/2001
Issue 05/12/2001
Issue 04/12/2001
Issue 03/12/2001
Issue 30/11/2001
Issue 29/11/2001
Issue 28/11/2001
Issue 27/11/2001
Issue 26/11/2001
Issue 23/11/2001
Issue 22/11/2001
Issue 21/11/2001
Issue 20/11/2001
Issue 19/11/2001
Issue 16/11/2001
Issue 15/11/2001
Issue 14/11/2001
Issue 13/11/2001
Issue 12/11/2001
Issue 09/11/2001
Issue 08/11/2001
Issue 06/11/2001
Issue 05/11/2001
Issue 02/11/2001
Issue 01/11/2001
Issue 31/10/2001
Issue 30/10/2001
Issue 29/10/2001
Issue 26/10/2001
Issue 25/10/2001
Issue 24/10/2001
Issue 23/10/2001
Issue 22/10/2001
Issue 19/10/2001
Issue 18/10/2001
Issue 17/10/2001
Issue 16/10/2001
Issue 15/10/2001
Issue 12/10/2001
Issue 11/10/2001
Issue 10/10/2001
Issue 09/10/2001
Issue 08/10/2001
Issue 05/10/2001
Issue 04/10/2001
Issue 03/10/2001
Issue 02/10/2001
Issue 01/10/2001
Issue 28/09/2001
Issue 27/09/2001

VEDOMOSTI and KOMMERSANT (07-12-2001)

The Unified Social Tax Rate Has Not Been Lowered

Yesterday the State Duma Budget Committee together with representatives of the Government and the President did not approve the proposal of the Tax Subcommittee regarding the lowering of the Unified Social Tax (UST) rate by 2,6% (i.e. from 35,6% to 33% for annual income below RUR 100,000). The Tax Subcommittee has also suggested abolishing all limitations connected with gaining access to the regressive scale of the UST (see our reports of 12-10-01 and 28-09-01) and this proposal was also declined. A compromise was achieved by making access to the regressive scale of the UST easier (a) by reducing the threshold of a company to the regressive scale from RUR 50,000 to 30,000 and (b) by reducing the minimum time period for gaining the right to access the regressive scale from one year to a quarter. The issue of splitting the pension part of the UST between the Pension Fund and the federal budget was resolved by distributing money equally between these two institutions: 14% will be granted to the Pension Fund and 14% - to the federal budget.

The Abolition of Obligatory Oil Supply

The Ministry of Energy has abolished the obligation for Russian companies to supply oil to Russian oil-processing factories. Thus, the export of oil will now depend only on the declared volume of oil extracted. This abolition will remain effective until a special order of the Head of the Ministry is issued. A unified export duty on all oil products in the amount of 25% per ton has been proposed instead of the abolished obligatory supply.

KOMMERSANT (07-12-2001)

The Draft Law on the Obligatory Control Over Certain Currency Transactions has been Rejected

Following the recommendation of the State Duma Budget and Taxes

Issue 27/09/2001
Issue 26/09/2001
Issue 25/09/2001
Issue 24/09/2001
Issue 21/09/2001
Issue 20/09/2001
Issue 19/09/2001
Issue 18/09/2001
Issue 17/09/2001
Issue 14/09/2001
Issue 13/09/2001
Issue 12/09/2001
Issue 11/09/2001
Issue 10/09/2001
Issue 07/09/2001
Issue 06/09/2001
Issue 05/09/2001
Issue 04/09/2001
Issue 03/09/2001
Issue 31/08/2001
Issue 30/08/2001
Issue 29/08/2001
Issue 27/08/2001
Issue 17/08/2001
Issue 16/08/2001
Issue 15/08/2001
Issue 14/08/2001
Issue 13/08/2001
Issue 10/08/2001
Issue 07/08/2001
Issue 06/08/2001
Issue 03/08/2001
Issue 01/08/2001
Issue 31/07/2001
Issue 30/07/2001
Issue 27/07/2001
Issue 25/07/2001
Issue 23/07/2001
Issue 20/07/2001
Issue 19/07/2001
Issue 18/07/2001
Issue 17/07/2001
Issue 16/07/2001
Issue 13/07/2001
Issue 12/07/2001
Issue 11/07/2001
Issue 10/07/2001
Issue 09/07/2001
Issue 05/07/2001
Issue 04/07/2001
Issue 03/07/2001
Issue 28/06/2001
Issue 27/06/2001
Issue 25/06/2001
Issue 22/06/2001
Issue 21/06/2001
Issue 20/06/2001
Issue 19/06/2001
Issue 18/06/2001
Issue 15/06/2001
Issue 14/06/2001
Issue 13/06/2001
Issue 09/06/2001
Issue 08/06/2001
Issue 06/06/2001
Issue 05/06/2001
Issue 04/06/2001
Issue 01/06/2001
Issue 31/05/2001

Committee, the Government of the RF proposed that the draft law "On submitting additions to Articles 5 and 7 of the Law of the RF "On Currency Control and Currency Regulation"" should be returned back to the procedure of the first reading and rejected. The draft suggests that authorized banks and federal executive bodies should be granted the right to suspend the carrying out of certain currency operations which show signs that are to be obligatory controlled.

Issue 30/05/2001
Issue 24/05/2001
Issue 23/05/2001
Issue 21/05/2001
Issue 17/05/2001
Issue 15/05/2001
Issue 14/05/2001
Issue 26/04/2001
Issue 25/04/2001
Issue 24/04/2001
Issue 23/04/2001
Issue 20/04/2001
Issue 19/04/2001
Issue 17/04/2001

NALOGI (No. 45 (261), December 2001)

Information Has Been Published on the Following Documents:

• Federal Law No. 158-FZ, dated 29 November 2001, "On submitting additions and an amendment to Article 228 of Part II of the Tax Code of the RF". According to the Law, individuals, who gain income from selling their own property, are defined as a separate category of taxpayers.

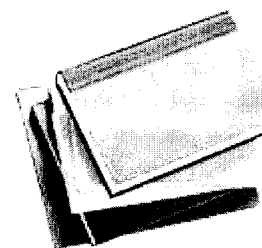
• The Letter of the Ministry of Taxes and Levies No. VG-6-03/783, dated 15 October 2001, according to which the updated format of Declarations for VAT should be used starting from the turnover from selling goods (works, services) of 1 October.

• The Letter of the Ministry of Finance of the RF No. 16-00-14/448, dated 31 October 2001, "On the procedure for accounting promotional and compensational payments". The Letter stipulates that these payments should be included into a company's expenses, deductible for the purposes of taxation, and are to be reflected in the accounts of calculation production expenditures.

TAMOZHENNY VESTNIK (No. 23 (179), December 2001)

The Regulation of the State Customs' Committee of the RF Regarding Changes in the List of Certain Goods Due to be Released

The Regulation of the State Customs' Committee No. 1062-r, dated 12 November 2001 "On submitting an amendment to the Regulation of the State



Customs' Committee No. 625-r, dated 13 June 2001" has been published. The procedure for releasing goods addressed to recipients located in Moscow and in the Moscow Region has been changed. The list of the goods is provided in the Appendix to the Regulation.

If you would like advice with regard to any of these issues, please do not hesitate to contact us - the Tax and Legal Department of Deloitte & Touche CIS at (095) 933-7300. The Legislative Tracking Service is maintained by professionals from Deloitte and Touche CIS. This service is for informational purposes only, and the application of its contents to specific situations will depend on the particular circumstances involved.

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Exhibit 9

Source: All Sources > Country & Region (excluding U.S.) > Russia > Legislation & Regulations > Economic Laws of the Russian Federation **i**

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NAME: The Constitution of the Russian Federation (was adopted at National Voting on December 12, 1993)

TYPE: CONSTITUTION

CLASS: FUNDAMENTALS OF THE STATE LEGAL SYSTEM/BODIES OF THE STATE POWER,
LOCAL SELF-GOVERNMENT/LOCAL SELF-GOVERNMENT/GENERAL QUESTIONS

FIRST-ACTION: December 12, 1993

LAST-ACTION: December 12, 1993

/ELE/EEE THE CONSTITUTION OF THE RUSSIAN FEDERATION

We, the multinational people of the Russian Federation,
united by a common fate on our land,
establishing human rights and freedoms, civic peace and accord,
preserving the historically established state unity,
proceeding from the universally recognized principles of equality and self-determination of peoples,
revering the memory of ancestors who have conveyed to us the love for the Fatherland, belief in the good and justice,
reviving the sovereign statehood of Russia and asserting the firmness of its democratic basic,
striving to ensure the well-being and prosperity of Russia,
proceeding from the responsibility for our Fatherland before the present and future generations,
recognizing ourselves as part of the world community,
adopt the CONSTITUTION OF THE RUSSIAN FEDERATION .
First Section

[*24] Article 24

1. The collection, keeping, use and dissemination of information about the private life of a person shall not be allowed without his or her consent.
2. The bodies of state authority and local self-government, their officials shall ensure for everyone the possibility of acquainting with the documents and materials directly affecting his or her rights and freedoms, unless otherwise provided for by law.

[*25] Article 25

The home shall be inviolable. No one shall have the right to get into a house against the will of those living there, except for the cases established by a federal law or by court decision.

[*26] Article 26

1. Everyone shall have the right to determine and indicate his nationality. No one may be forced to determine and indicate his or her nationality.
2. Everyone shall have the right to use his or her native language, to a free choice of the language of communication, upbringing, education and creative work.

[*27] Article 27

1. Every who legally stays in the territory of the Russian Federation shall have the right to free travel, choice of place of stay or residence.

[*2702]

2. Everyone may freely leave the Russian Federation. Citizens of the Russian Federation shall have the right to freely return to the Russian Federation.

BEGIN COMMENTARY:

On the Procedure of Exit from the Russian Federation and Entry into the Russian Federation
see ♦ Federal Law

END COMMENTARY**[*28]** Article 28

Everyone shall be guaranteed the freedom of conscience, the freedom of religion, including the right to profess individually or together with other any religion or to profess no religion at all, to freely choose, possess and disseminate religious and other views and act according to them.

BEGIN COMMENTARY:

Exhibit 10

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Citation: **garant 10002748**

*GARANT 10002748, **

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GARANT 10002748

NAME: Law of the Russian Federation No. 5242-1 of June 25, 1993 on the Right of Citizens of the Russian Federation to the Freedom of Movement, the Choice of a Place of Stay and Residence within the Russian Federation

TYPE: LAW

CLASS: FUNDAMENTALS OF THE STATE LEGAL SYSTEM/ADMINISTRATIVE TERRITORIAL DIVISION, SEPARATE REGIONS/CLOSED ADMINISTRATIVE TERRITORIAL FORMATIONS

ISSUED BY: BODIES OF LEGISLATIVE POWER OF RUSSIA AND THE USSR/SUPREME SOVIET OF RUSSIA

FIRST-ACTION: June 25, 1993

LAST-ACTION: June 25, 1993

/ELE/EEE LAW OF THE RUSSIAN FEDERATION NO. 5242-1 OF JUNE 25, 1993 ON THE RIGHT OF CITIZENS OF THE RUSSIAN FEDERATION TO THE FREEDOM OF MOVEMENT, THE CHOICE OF A PLACE OF STAY AND RESIDENCE WITHIN THE RUSSIAN FEDERATION

♦ Resolution of the Supreme Soviet of the RF No. 5243-1 of June 25, 1993

on the Procedure for Carrying into Effect the Law of the RF on the Right of Citizens of the RF to the Freedom of Movement, the Choice of a Place of Stay and Residence within the RF

[*1]

Article 1. The Right to the Freedom of Movement, the Choice of a Place of Stay and Residence within the Russian Federation.

In accordance with the Constitution of the Russian Federation and the international human rights acts every citizen of the Russian Federation shall have the right to the freedom of movement, the choice of a place of stay and residence within the Russian Federation.

The right of citizens of the Russian Federation to the freedom of movement, the choice of a place of stay and residence within the Russian Federation may be limited only on the basis of a law.

Persons who are not citizens of the Russian Federation and who stay on its territory on a lawful basis shall have the right to the freedom of movement, the choice of a place of stay and residence within the Russian Federation in conformity with the Constitution and laws of the Russian Federation and its international treaties and agreements.

[*2]

Article 2. Basic Concepts

For purposes of the present Law the place of stay and residence shall be understood to mean the place of sojourn and residence.

[*21]

The place of sojourn is a hotel, sanatorium, holiday home, holiday hotel, camping-site, tourist base, hospital and any other similar institution, and also living quarters, which is not the place of residence of a private citizen and in which he resides for the time being.

[*22]

The place of residence is a dwelling house, apartment, official living quarters, specialized house (a hostel, hotel-shelter, house for maneuverable stock, special house for single aged people, boarding house for disabled persons, labour and war veterans, etc.), and also any other living accommodation in which a private citizen lives permanently or chiefly as its owner, under a contract for lease of housing (sublease), a contract of tenancy or on any other grounds provided for by the legislation of the Russian Federation.

[*3]

Article 3. Registration of Citizens of the Russian Federation According to the Place of Stay or Residence within the Russian Federation

In order to provide the necessary conditions for the realization by a citizen of the Russian Federation of his rights and freedoms, and also for the performance of his duties to other citizens, the State and society, registration of citizens of the Russian Federation shall be introduced according to the place of stay or residence Russian Federation.

Citizens of the Russian Federation shall be obliged to get registered in the place of stay Federation. Registration or non-registration may not serve as a ground or condition for the implementation of the rights and freedoms of citizens, provided for by the Constitution of the Russian Federation, the laws of the Russian Federation, the Constitutions and laws of the Republics within the Russian Federation.

In accordance with the ♦ Law Duty the state duty shall be collected for the registration of citizens of the Russian Federation in the place of residence within the Russian Federation.

BEGIN COMMENTARY:

♦ Federal Law State Revenue Duty. Concerning the amounts of the state duty for the registration at the place of residence see the ♦ new wording

END COMMENTARY

The rules for the registration and for striking citizens of the Russian Federation off the register according to the place of stay or residence within the Russian Federation, and also the list of officials responsible for registration shall be approved by the Government of the Russian Federation.

BEGIN COMMENTARY:

The ♦ Rules of the Russian Federation by the Place of Stay and by the Place of Residence Within the Boundaries of the Russian Federation and the ♦ List of the Official Persons, Responsible for the Registration were approved by ♦ Decision 17, 1995

END COMMENTARY

Control over the observance by citizens of the Russian Federation and officials of the rules for registration and striking such citizens off the register according to the place of stay or residence within the Russian Federation shall be exercised by the organs of internal affairs.

Article 4. Bodies of Registration of Citizens of the Russian Federation in the Place of Stay or Residence Federation

Bodies of registration of citizens of the Russian Federation according to the place of stay or residence within the Russian Federation shall comprise the organs of internal affairs in cities, townships, rural settlements, closed cantonments, and also in populated localities in border areas or in closed administrative-territorial formations, in which there are organs of their interior, and shall cover the local administration in all the rest of the populated centres.

Article 5. Registration and Striking off the Register of Citizens of the Russian Federation in the Place of Stay

Registration of a citizen of the Russian Federation in the place of stay shall be made without striking off the register in the place of residence.

The registration and striking off the register of a citizen of the Russian Federation in the place of stay in a hotel, sanatorium, holiday home, boarding hotel, camping site, tourist base, hospital and any similar institution shall be effected upon his arrival or exit by the management of the respective institution.

In other cases the registration and striking off the register of a citizen in the place of stay shall be made by a registration body in accordance with the rules approved by the Government of the Russian Federation.

Article 6. Registration of a Citizen of the Russian Federation According to the Place of Residence

A citizen of the Russian Federation who has changed his place of residence shall be obliged within seven days since his arrival at a new place of residence to apply to the official responsible for registration with a statement of a stipulated form. He or she shall present the following documents:

passport or any other document replacing it and certifying the personality of a citizen;

document serving as a ground for moving a citizen into living quarters (a warrant for living accommodation, contract for lease, statement of the person who has given living quarters or any other document) or its property certified copy.

The registration body shall be obliged to register a citizen in the place of residence within three days since the day of presenting documents for registration.

[*7]

Article 7. The Striking off the Register of a Citizen of the Russian Federation According to the Place of Residence

Citizens of the Russian Federation shall be struck off the register in the place of residence by a registration body in the following cases:

change of a place of residence - on the basis of a citizen's statement about the registration in a new

place of residence;

conscription to military service - on the basis of a deliverance from the local military commissariat;

conviction to deprivation of liberty - on the basis of the court's sentence that has entered into legal force;

recognition as missing without a truce - on the basis of the court's decision that has entered into legal force;

death or the court's declaration as deceased - on the basis of a death certificate drawn up in a statutory manner;

eviction from the occupied living quarters or recognition as invalid of the right to use the living accommodation on the basis of the court's decision that has entered into legal force;

discovery of false information or documents that served as a ground for registration on the unlawful actions by officials in the process of registration - on the basis of the court's decision that has entered into legal force.

[*999999]

Article 8. Grounds for Restricting the Right of Citizens of the Russian Federation to the Freedom of Movement, the Choice of a Sojourn 10002748.21 or Residence

The right of citizens of the Russian Federation to the freedom of movement, the choice of a place of sojourn or residence within the Russian Federation may be restricted according to the laws of the Russian Federation:

in a border area;

in closed cantonments;

in closed administrative-territorial formations;

in zones of ecological disaster;

in separate territories or populated localities where special conditions and regimes of living and economic activity have been introduced in case of danger of infections and mass non-infections diseases and poisoning;

in territories where a ♦ state of emergency introduced.

[*9]

Article 9. The Protection of the Right of Citizen of the Russian Federation to the Freedom of Movement, the Choice of a Place of Stay
Residence

Actions or inaction by state and other bodies, enterprises, institutions, organizations, officials and other juridical and natural persons affecting the right of citizens of the Russian Federation to the freedom of movement, the choice of a place of stay or residence within the Russian Federation may be appealed against by citizens with a higher organ or a higher official or directly with a court of law.

Article 10. Responsibility for Violating the Requirements of the Present Law

Violations of the requirements of this Law shall entail responsibility of officials and private citizens in compliance with the legislation of the Russian Federation.

Article 11. The Application of Standards of International Law

If an international treaty or agreement of the Russian Federation establishes rules other than those contained in the present Law, the rules of this international treaty or agreement shall be applied.

President of the Russian Federation Boris Yeltsin

Moscow, the House of Soviets of Russia

No. 5242-1

June 25, 1993

HISTORY: 6/25/1993

[*RELATED] REFERENCES: GARANT ♦ [11002748](#)

THE FOLLOWING DOCUMENTS MAKE REFERENCE TO THIS DOCUMENT:

- ♦ ([DECISION OF CONSTITUTIONAL COURT OF RF NO. 2-P OF 15.01.98](#))
- ♦ ([DECISION OF GOVERNMENT OF RF NO. 713 OF JULY 17, 1995](#))
- ♦ ([DECISION OF GOVERNMENT OF RF NO. 199 OF FEBRUARY 28, 1996](#))
- ♦ ([RESOLUTION OF SUPREME SOVIET OF RF NO. 5243-1 OF JUNE 25, 1993](#))
- ♦ ([LETTER OF PENSION FUND OF RUSSIA NO. EB-16-28/8548 OF 1.12.97](#))
- ♦ ([ORDER OF MINISTRY FOR TAXES AND FEES NO. BG-3-07/465 OF 29.12.2000](#))

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39 Harv. Int'l L.J. 545

RECENT DEVELOPMENT: THE DEMISE AND RESURRECTION OF THE PROPISKA: FREEDOM OF MOVEMENT IN THE RUSSIAN FEDERATION*

* All translations are those of the author, unless otherwise noted.

Noah Rubins**

** Noah Rubins is a J.D. candidate at Harvard Law School and an M.A.L.D. candidate at the Fletcher School of Law and Diplomacy. He has worked in the NGO sector in Kyrgyzstan, at the U.S. Embassy in Russia, and in private legal practice in Turkey.

SUMMARY:

... The weakening and subsequent dissolution of the Communist regime in Russia created widespread hope that the restrictive residence permit system known as *propiska* would be abandoned, ensuring freedom of movement for Russian citizens. ... Although a minimal federal "residence tax" would not necessarily form an insurmountable obstacle to freedom of movement (particularly if provision was made for waiver in the case of destitute applicants), such fees are now at the core of local efforts to keep the *propiska* alive. ... Although not explicitly, the Rules seem to prohibit local authorities from refusing registration, except under certain relatively limited circumstances: (1) if written permission is not obtained from the owners of the residence in which the visitor will reside; (2) the visitor resides in a home which he has rented, built, or bought without proper title; (3) the residence occupied by the visitor has been confiscated for criminal investigation or other purposes; or (4) the visitor has submitted counterfeit documents. ... As of 1996, at least ten regions had retained the *propiska* or passed new provisions requiring discretionary official permission for registration. ...

TEXT:

[*545] The weakening and subsequent dissolution of the Communist regime in Russia created widespread hope that the restrictive residence permit system known as *propiska* would be abandoned, ensuring freedom of movement for Russian citizens. ¹ Despite significant liberalization of the legal regime governing freedom of movement, Russian citizens still face major restrictions.

The struggle over the resilient *propiska* reveals deep fissures in Russia's federal structure and highlights the inability of the Constitutional Court and federal government to safeguard civil rights. The curtailment of the freedom may be a harbinger of graver problems for the Russian legal regime. Moreover, without unhindered circulation of its population, Russia is likely to face difficulties in the course of its economic development. ²

rights in Russia, but the economic burden of free circulation of populations (at least as calculated by regional leaders of limited financial ken) takes a toll as well.⁷⁷

C. The Response of the Constitutional Court

Faced with the widespread violation by local bodies of freedom of movement, as codified in Article 27 of the Constitution, the 1993 Law, and the 1994 Civil Code, officials from all branches of the central government⁷⁸ looked to the Constitutional Court as the "only effective remedy."⁷⁹

Moscow University law professor, Valery Zorkin led the Constitutional Court, which was created in October, 1991.⁸⁰ That court proved too timid and structurally vulnerable to hand down unambiguous pronouncements on politically controversial matters.⁸¹ It primarily examined separation of powers cases that were brought by fractious Supreme Soviet deputies against the executive branch of the government.⁸² The [*559] court was suspended in 1993⁸³ and reestablished under a new law two years later.⁸⁴

1. The 1996 Decision

The new Constitutional Court handed down its first decision in March 1995.⁸⁵ Under its new charter, the Court exercised discretionary jurisdiction over constitutional cases brought by government agencies, public officials, or private citizens.⁸⁶ The *propiska* came under Court scrutiny in the summer of 1996⁸⁷ by a joint action of the President of the Siberian republic of Komi and two private citizens. Komi leader Y. Spiridonov questioned the constitutionality of local statutes in the city of Moscow, Moscow Region, Stavropol Region, Voronezh city, and Voronezh Region.⁸⁸ V. Kutsyllo and R. Klebanov protested only the Moscow statute of September 1994, "on the collection of money for compensation of municipal budgetary expenses for the development of [*560] city infrastructure and provision of social and living conditions to citizens arriving in Moscow for permanent residence."⁸⁹

The Court, led by Chairing Justice O.I. Tiunov, invalidated the statutes of all five regions as inconsistent with the Constitution of the Russian Federation. Most far-reaching in the decision's argumentation is the articulation of exclusive federal prerogative in exercising the limitations on civil rights outlined in the Constitution, Civil Code, and elsewhere. "The limitation of the right to choose one's place of residence can be introduced only by federal law, [and only] to the degree necessary to defend the basis of constitutional governance, morality, health, the rights and legal interests of others; for the national defense and security of the state."⁹⁰ The Court clarified that the loophole contained in Article 8 of the 1993 Law must be interpreted narrowly, only to be invoked by federal authorities. Thus, while the federal government may establish quotas for settlement in Mineral'nye Vody based on security or public health concerns, the Stavropol regional legislature is not empowered to do so.

Further, the Court found that while Federation subjects have the power to establish taxation systems to suit their particular needs, this power is invalid if used to effect limitations of fundamental rights such as freedom of movement.⁹¹ Thus, Article 18 of the Constitution must be taken literally in its admonition that human rights and freedoms define the meaning, content, and application of the law. Furthermore, since indiscriminate and excessive registration fees abridge the constitutionally guaranteed freedom of movement and principle of equality before the law, the Court argued, such statutes must be without force. Taxation must be implemented according to "just distribution of income and differentiation of taxes and duties."⁹²

In a concurring opinion, Justice Baglai supported the majority deification of the freedom of movement as

"fundamental," but warned against extrapolating "the equality and rights of citizens to the point of absurdity."⁹³ She argued that preference in registration regimes might constitutionally be given to certain categories of citizens, such as decorated [*561] veterans of World War II, and that differentiation of fees for registration need not necessarily be indexed to income. Baglai reinforced the caveat attached to most rights in the Russian Constitution, stating that "the rights of some individuals may be limited by the reasonable defense of the rights of others, and just preferential treatment to some citizens can correct the ethical defects of formal equality of all."⁹⁴

2. The 1997 Decision

Although the Court annulled local statutes in its 1996 decision, nearly analogous laws appeared immediately in most of the regions in question, and little or no change was made to registration laws in regions that escaped direct scrutiny. During the first five months of 1997, authorities in the Russian capital conducted more than 1.4 million identity checks, finding 737,561 "violations of registration procedures."⁹⁵ More than 3,000 people were physically packed onto trains and "deported" from Moscow in 1996.⁹⁶ In July 1997, only one year after its first ruling on the *propiska*,⁹⁷ the Constitutional Court was again confronted with registration taxes in the Moscow Region.⁹⁸

Rather than reiterate the sanctity of freedom of movement, the Court relied primarily on the exclusive federal power to tax in striking down a regional residence fee of more than 22.5 million rubles.⁹⁹ This additional legal weapon in the arsenal against residence permits was unavailable during the previous year's examination, because Yeltsin's 1993 edict granting broad taxing powers to federation subjects was still in effect.¹⁰⁰

[*562] 3. The 1998 Decision

The Constitutional Court attacked the residence permit regime yet again in February, 1998.¹⁰¹ In its comparatively brief decision,¹⁰² the Court further refined previous holdings to leave no doubt that a completely non-discretionary accounting of residency is all the Russian Constitution can bear. "Registration authorities have only the power to verify the citizen's act of free choice when he selects the place he will sojourn or live."¹⁰³

This decision fundamentally differed from those preceding it because it targeted the *federal executive* rather than regional governments as the primary culprits in the *propiska* imbroglio.¹⁰⁴ The Court referred to the 1995 registration rules (described *supra*, Part I.A.1.b) as "outside the boundaries of authority provided by the Constitution."¹⁰⁵ In response to a complaint filed by the Nizhny Novgorod Governor, the Court found the Rules violated the Constitution in two ways. The six month limit on temporary residence was found to be "interference by executive organs . . . into civil, housing, and other legal relations."¹⁰⁶ Second, grounds for refusal provided in the Rules were deemed unacceptable, as denial "would be used as a means of compulsion."¹⁰⁷

The Court's 1998 decision further revealed the complexity of the residence permit problem. While the primary source of movement restrictions continues to be local, loopholes and incomplete implementation in the federal registration regime have exacerbated confusion and abuse.¹⁰⁸

[*563] Although the federal government's desire to rein in Russia's recalcitrant regions has been an

Exhibit 12

debt rating would mean higher costs of foreign borrowing for both the government and commercial banks since those banks' credit ratings would automatically be lowered. LB

LUZHKOV VOWS TO FLOUT COURT RULING

Moscow Mayor Yurii Luzhkov on 10 March announced that the capital will not do away with residence permits, ITAR-TASS reported. The Constitutional Court recently ruled that local authorities can keep records of citizens' places of residence but cannot use the registration process to grant or deny citizens permission to live in a given location (see "RFE/RL Newsline," 3 February 1998). Luzhkov called for overruling that decision, saying that residency permits (also known as "propiski") are needed to protect Moscow from an influx of citizens seeking benefits. He noted that social benefits payments already make up 41 percent of city budget expenditures. He did not specify how the court's decision could be overruled. Article 27 of the constitution grants citizens the right to choose their place of residence. LB

CHICKEN LEGS TO PAY FOR TSAR'S BURIAL?

"Novye izvestiya" reported on 10 March that proceeds from imports of chicken legs from the U.S. will fund the funeral for Russia's last tsar. Nicholas II and his family are to be buried in St. Petersburg this July, and the event will be financed from non-budgetary sources. "Novye izvestiya" alleged that a firm linked to Oneksimbank will import the chicken legs through the government commission on burying the tsar's remains, thereby gaining exemptions from various taxes and customs duties. First Deputy Prime Minister Boris Nemtsov heads that commission. The newspaper charged that Oneksimbank has unparalleled access to both Nemtsov and First Deputy Prime Minister Anatolii Chubais. "Novye izvestiya" was founded last year by journalists who left "Izvestiya," in which Oneksimbank is a major shareholder. Boris Berezovskii's LogoVAZ empire, a leading business rival of Oneksimbank, reportedly helps finance "Novye izvestiya." LB

ARKHANGELSK SEEKS ILLEGAL 'CO-AUTHOR' OF OBLAST LAW

The Arkhangelsk Oblast Prosecutor's Office has opened a criminal case in connection with illegal alterations to a law on the oblast's human rights commissioner, "Izvestiya" reported on 11 March. The text published in the local press differed from the version of the law that had been approved by the oblast legislature and signed by Governor Anatolii Yefremov. For example, a passage prohibiting the commissioner from belonging to political parties or movements had been mysteriously removed. According to the 26 February edition

Exhibit 13

Source: [All Sources](#) > [Secondary Legal](#) > [Law Reviews, Combined](#) 

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*76 N.Y.U.L. Rev. 344, **

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76 N.Y.U.L. Rev. 344

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NOTE: LIFE IN RUSSIA'S "CLOSED CITY": MOSCOW'S MOVEMENT RESTRICTIONS AND THE RULE OF LAW

Damian S. Schaible*

* This Note is dedicated to the memory of John Joseph Ostertog (1917-2000), who taught me so much. I would like to thank Professor Alexander Domrin for his helpful comments, and the members of the New York University Law Review, especially Margaret Lemos, David McTaggart, Michael Russano, and David Yocis, for their excellent advice and editorial assistance. I would also like to thank my family for their constant support and encouragement.

SUMMARY:

... With the downfall of the Soviet Union and Russia's rebirth as a state committed to democracy and capitalism, all of this was supposed to change. ... B. Unenforcement of Federal Law as an Index of Progress Toward the Rule of Law in Russia ... Therefore, if Russia is operating under the rule of law, one could expect that federal law, within its sphere of influence, would override inconsistent local actions. ... C. Unenforcement of Federal Law Exacerbates the Problem of Russia's Transition to the Rule of Law ... " Moscow's continued flouting of federal law further damages the prospects for such a legal consciousness in Russia, thereby hindering Russia's transition to the rule of law. ... It is clear both that building a legal consciousness in Russia is vital to the successful transition to the rule of law, and that it will take time. ... In this way, the continued rift between federal law and local reality on the subject of free movement illustrates the difficulty Russia faces in instituting the rule of law. ... Second, the maintenance of movement restrictions in the face of contrary federal law worsens Russia's ability to attain the rule of law. ...

The City of Moscow continues to enforce a restrictive residence registration regime similar to the propiska system that prevailed in the Soviet era - despite constitutional guarantees of the freedom of movement, federal statutory provisions implementing that right, and Constitutional Court rulings that such restrictions are unconstitutional. In this Note, **Damian Schaible** argues that the continued restrictions represent more than simply an ongoing violation of the human rights of Moscow's illegal residents; they are also an indicator of Russia's imperfect transition to the rule of law and a practical obstacle to the success of that transition.

TEXT:

[*344] Introduction

In October 1999, while Moscow was gripped by terror in the wake of a series of apartment bombings, 20,000 people in the city were arrested and detained by police, ¹ while another 15,000 were ordered to leave the city. ² A family of three was told one morning that they had twenty-four

hours to vacate the apartment where they had lived for seven years and to leave Moscow. ³ There may be as many as three million other people, still living in Moscow, who are effectively nonpersons in the eyes of local law. ⁴ They are unable to vote, marry **[*345]** legally, send their children to school, receive aid from public assistance programs, or receive the free medical care offered to the other residents of the city. ⁵

These stories and others like them are the direct result of Moscow's residence registration law. Originally instituted by Peter the Great early in the eighteenth century, residence permits were used to tie Russian serfs to the land. ⁶ Stalin reintroduced the system in 1925 as a means of controlling the movement of Soviet citizens to prepare the country for the rapid and painful industrialization that came to be called the "Great Terror." ⁷ Administered through the use of a residence permit stamp, or propiska, imprinted in an "internal passport" that all Soviet citizens were required to carry, the system severely restricted movement throughout much of the Soviet era. ⁸

With the downfall of the Soviet Union and Russia's rebirth as a state committed to democracy and capitalism, all of this was supposed to change. ⁹ Today, nine years later, it is clear that the federal government of Russia recognizes its people's right to choose a place to live and to move freely about the country. The 1993 Russian Constitution acknowledges the right to freedom of movement. ¹⁰ The Russian legislature has enacted laws dealing with the right to freedom of movement. ¹¹ The Russian President publicly has supported the right, ¹² and **[*346]** the Russian Constitutional Court repeatedly has declared the right. ¹³ Furthermore, international conventions signed by the Russian government have promised the right. ¹⁴ However, in many parts of the country, including the capital city of Moscow, the federal right to free movement is violated daily by local and regional governments that retain unconstitutional and inhumane propiska-like ¹⁵ systems of registration for both visitors and residents. ¹⁶

In addition to the obvious and troubling human rights abuses inherent in these systems, the rift that exists between federal law and **[*347]** local reality speaks to Russia's difficult transition to the rule of law. ¹⁷ The rift can be understood in two related ways. First, it provides an index, showing how far Russia is from its goal. In addition, it creates a vicious cycle in which illegal restrictions on movement persist because Russia remains far from the rule of law, while the continued restrictions in turn make the problem worse. This does further damage to Russia's prospects for attaining the rule of law. This Note recognizes that the government is not likely to remove the restrictions in the near future. However, this Note argues that ultimately they must be removed if Russia is to have a genuine chance at achieving the rule of law. ¹⁸

Part I focuses on the ongoing problem of movement restrictions in Russia, examining the discarded Soviet propiska system, Moscow's current restrictive residence registration system, and the human rights implications of Moscow's registration regime. Part II then examines how the split between federal law and local reality with respect to Moscow's restrictions on movement speaks to Russia's prospects for becoming a nation governed by the rule of law. It explains that the rift provides an indicator of how far Russia is from the rule of law, while at the same time worsening Russia's prospects for ever attaining the rule of law. The Note concludes by arguing that, despite the difficulties involved, if the nation is to attain the rule of law, Russia's leaders must act to enforce the federal right to free movement.

I

Movement Restriction in Russia - An Ongoing Problem

A. The Propiska: A History of Movement Restrictions in Russia

The roots of the propiska (translated as either "registration" or "registration permit") ¹⁹ system run deep in Russia. ²⁰ Russia's practice of restricting its citizens' movement dates back to the "permit of

passage" **[*348]** edict issued by Czar Peter I in 1719. ²¹ The edict allowed for the issuance of two separate passports to Russian citizens: the "external" passport, which was used for foreign travel, and the "internal" passport, which bore a stamp identifying the holder's place of residence. ²² For more than 200 years, the system served to tie Russian serfs to the land on which they were assigned to work. ²³

Not even the overthrow of the Russian Czars in the October Revolution of 1917 and the sweeping changes that followed signaled the immediate end of the propiska system. The Bolsheviks, who seized control of Russia, continued to use the system until it gradually succumbed to the increased labor demands of the New Economic Plan of 1921 to 1924. ²⁴ This freedom was short-lived, however, as Stalin reintroduced the propiska system in 1925 as part of his drive to collectivize Soviet agriculture. ²⁵ By 1932, the law again required all rural dwellers to have propiska stamps in their internal passports to signify where they lived; the peasants of Russia were completely "unemancipated," tied to a collective farm for life. ²⁶ Except for small revisions in the registration rules in 1964 and 1974, this system operated to restrict the movement of the Russian people throughout the Soviet period. ²⁷

One elderly Russian man summed it up best: "The propiska was both a dream and nightmare for Soviet people." ²⁸ It was a dream in that millions of people longed for the coveted Moscow propiska that would allow them to live in the wealthiest and most privileged city in **[*349]** the Soviet Union. ²⁹ It was a nightmare in that it completely pervaded the Soviet citizen's life from the age of sixteen, when each person was issued his or her internal passport. ³⁰

B. Residence Registration: Ongoing Movement Restrictions in Russia's Capital City

I was robbed two days ago, I was robbed yesterday, I was robbed today. The situation is stabilizing.

- Russian Proverb ³¹

The attack on Russian movement restrictions began well before the fall of the Soviet Union. ³² It was not until 1993, however, that the federal government decisively established the right to free movement within the Russian Federation. ³³ Then, in decisions handed down in **[*350]** 1996, 1997, and 1998, the country's Constitutional Court clearly denounced any permit or registration system that might be used to restrict that right. ³⁴ Today, federal law permits a registration regime, ³⁵ but it envisions a notification-based system similar to those that exist in many Western European countries. ³⁶ In other words, citizens still would register with local officials upon moving into a new area, but the officials no longer should have discretion to accept or reject applications. Rather, the citizens simply would notify the government that they are moving to an area, and the government should register them accordingly. ³⁷

While the federal laws and the Constitutional Court's holdings seem clear, no real change has occurred in Russia's capital city. It is difficult to pinpoint a reason for Moscow's continued movement restrictions. Certainly, there is strong public support for a restrictive registration regime. ³⁸ Some of this support can be tied to racism. ³⁹ It **[*351]** appears, however, that the majority of support for a restrictive registration system in Moscow - among both local leaders and the public - comes from a perceived need to protect against the flood of migrants many fear would occur as a result of a removal of the restrictions. ⁴⁰ The argument has been made time and again by Moscow's leadership in defense of the city's restrictive registration regime. ⁴¹

It is open to debate whether a flood of migrants actually would occur as a result of the removal of the registration restrictions, ⁴² whether the migrants would overwhelm the city's infrastructure, ⁴³ and **[*352]** whether Moscow's population is justified in seeking to avoid the influx. ⁴⁴ Nevertheless, it seems that Moscow's population and its leadership perceive these dangers and accept registration restrictions as a way to avoid them. The matter may be as simple as Muscovites

wishing to preserve their prosperity in the face of the huge disparity between Moscow's "boom-town flair and emerging middle class" and the economic situation in the provinces, "which suffer from the equivalent of the Great Depression of the 1930s." ⁴⁵ However, while the reasons behind it are not completely discernible, the fact that Moscow uses its registration system to restrict movement to the city is all too clear.

C. Moscow Continues to Use Its Local Residence Registration Regime to Restrict Movement

It appeared in the first months of 1996 that Moscow would comply with the federal government's mandate of free movement. On February 1, 1996, the city officially dismantled its propiska system, replacing it with a mandatory registration system that was to conform with the federally granted right of free movement. ⁴⁶ However, it quickly became apparent that the complex set of administrative requirements established by the new system were just as restrictive as the old propiska system. ⁴⁷ In 1999, Moscow issued a new set of registration rules, which explicitly state that they obey the Constitutional Court decisions calling for notice-based registration. ⁴⁸ Nevertheless, **[*353]** in practice the requirements listed therein continue to restrict severely who can register in Moscow.

When a non-Muscovite arrives in Moscow, he or she must register with the City Department of the Interior within three days. ⁴⁹ The rules allow for two types of registration: "temporary" and "permanent," depending on whether one is visiting or planning to live in the city. ⁵⁰ Registering temporarily in Moscow requires payment of a small fee and proof of residence. ⁵¹ Proof of residence may be in the form of a lease, if one is renting a place in Moscow, or written permission from the owner and everyone registered at the residence, if one is staying with relatives. ⁵² There is also a space requirement, whereby the registrant must prove that there is a certain amount of space available for each person in the residence. ⁵³ The requirements for permanent registration are similar, except that one must show either a lease or deed, proving that he or she either rents or has purchased an apartment. ⁵⁴

Facially, the requirements may not appear overly cumbersome. In practice, however, they serve to restrict severely who can register in the city. One reason is that it is virtually impossible for a would-be tenant to find a landlord willing to sign a lease agreement. If the lease is in writing, the landlord must register with the city and pay taxes on the income. ⁵⁵ In order to avoid the draconian Russian tax system, which would consume a sizable portion of the lease income, most Muscovite landlords only will rent apartments informally, without the use of a legal lease. ⁵⁶

With leases largely unattainable, unless a person is one of the fortunate few who can afford to spend the equivalent of thousands of American dollars to purchase an apartment, the only registration option available is to register at the home of a relative. This, too, often **[*354]** proves to be a difficult hurdle as it requires written permission from all those registered at the residence. ⁵⁷ Even if all of the necessary signatures are attained, the registration will be denied if the statutory space requirements for the dwelling are not met. For a culture accustomed to living together - sometimes several generations - in cramped quarters, the space requirement often presents a serious obstacle. ⁵⁸

In addition to the explicit restrictions on registration created by the system, actions taken by Moscow's leadership, especially the city's powerful Mayor Yuri Luzhkov, have restricted people's right to move around freely even further. ⁵⁹ One such action occurred in September 1999, when, in the wake of a series of apartment building bombings in Moscow that were widely thought to have been perpetrated by terrorists in retaliation for Russian action in the breakaway Republic of Chechnya, Luzhkov twice tightened Moscow's registration requirements. On September 13, 1999, Luzhkov, ostensibly to unmask the perpetrators of the apartment bombings, issued a decree that all people with temporary registrations in Moscow had to reregister within three days. ⁶⁰ When it became obvious that local authorities could not **[*355]** possibly process the reregistration applications of the 121,000 people who had temporary registrations in Moscow, the Mayor extended the period to September 21. ⁶¹

There are several aspects of Mayor Luzhkov's September 13 decree that show that registration - and therefore movement - continues to be restricted in Moscow. The mere fact that people legally registered were forced, with little notice, to stand in long lines for up to a week to reregister, ⁶² can be seen as a restriction. More significantly, many of those who previously held temporary registrations were denied reregistration. In the week after Luzhkov's decree, 15,000 previously registered visitors were refused reregistration and told to leave the city within three days. ⁶³ Even more troubling, one human rights monitor in Moscow reported that the Moscow police were operating under unpublished, yet explicit, orders to refuse to register any ethnic Chechens residing in the city. ⁶⁴

Finally, the September 13 decree added to the requirements for temporary registration in Moscow. Item 1.2 of the decree required those seeking reregistration to substantiate their purpose for being in Moscow. ⁶⁵ One advocate for the unregistered in Moscow explained that though there are no rules to define acceptable purposes, a letter from an employer usually is required. ⁶⁶ According to a statement made by the head of Moscow's passport department, those refused **[*356]** reregistration in the wake of the September 13 decree were rejected because "they were unable to explain the purpose of their presence, their place of residency and, well, a number of other reasons." ⁶⁷ Calling for reregistration arguably is restrictive of free movement; however, the number of people refused reregistration and the suspect reasons for refusal make it clear that movement continues to be restricted in Russia's capital city. ⁶⁸

In sum, it is clear that Russia's capital city continues to prevent free movement by the use of a registration system that operates in various ways to restrict severely who can register in the city. ⁶⁹

D. The Human Rights Implications of Moscow's Continued Restrictions on Movement

Moscow's registration system, by restricting who can register in the city, significantly violates the human rights ⁷⁰ of the unregistered. ⁷¹ **[*357]** Life for the unregistered, commonly labeled "bomzhi" (an acronym for one without an address and a colloquialism for "scum"), ⁷² is extremely difficult. They cannot enroll their children in kindergarten, they are denied the free medical care available to other Muscovites, and they are not even allowed to buy a gravesite. ⁷³ They are unable to get a job legally or receive a pension. ⁷⁴ They are stopped frequently and questioned by police and are forced to pay bribes to avoid being taken into custody for not being registered. ⁷⁵ When they are taken into custody, they face beatings at police stations and are held in special deportation centers while they await deportation from the city. ⁷⁶

[*358] In short, the restrictions result in a class of Moscow inhabitants who effectively are treated as noncitizens. ⁷⁷ This class of people whose human rights are violated by the registration regime is not a small one; ⁷⁸ as mentioned, widely varying estimates place the number of unregistered in Moscow somewhere between 100,000 and three million. ⁷⁹

II

Continued Restrictions on Movement and the Rule of Law

The continued use of registration systems that restrict freedom of movement in localities such as Moscow leads to tremendous human suffering. Alone, this creates a big enough problem to warrant immediate attention. However, in addition to the negative direct consequences of the regime, the fact that Moscow continues to restrict movement in the face of contrary federal law reflects poorly on Russia's ongoing transition to the rule of law. The situation serves as an index of the country's progress, illustrating how far Russia is from the rule of law, while at the same time aggravating the problem of Russia's transition to becoming a rule-of-law nation.

A. The Rule of Law in Russia

Lenin summed up Russian law during the Soviet period when he said, "law is policy." ⁸⁰ Law, like all

Exhibit 14



The Russian Federation

INTRODUCTION
AFRICA
AMERICAS
ASIA
EUROPE AND
CENTRAL ASIA
MIDDLE EAST AND
NORTH AFRICA
SPECIAL ISSUES
AND CAMPAIGNS
UNITED STATES
ARMS
CHILDREN'S RIGHTS
WOMEN'S
HUMAN RIGHTS
APPENDIX

• Human Rights Developments
Defending Human Rights
The Role of the International Community

World Report 2000

Current Events

News Archive

COUNTRIES

Albania
Armenia
Azerbaijan
Republic of Belarus
Bosnia and
Herzegovina
Bulgaria
Croatia
Czech Republic
Georgia
Greece
Hungary
Kazakhstan
Kyrgyzstan
Macedonia
Romania
Russian Federation
Slovakia
Tajikistan
Turkey
Turkmenistan
United Kingdom /
Northern Ireland
Uzbekistan
Federal Republic of
Yugoslavia

CAMPAIGNS

Human Rights Developments

The year was dominated by Russia's brutal war in Chechnya and fears of an impending crackdown on civil and political rights. Russian soldiers and police committed war crimes and other serious violations of the rules of human rights and humanitarian law in Chechnya. Following Vladimir Putin's election as Russia's new president in March, the political climate changed as officials' public statements showed increased intolerance to criticism and a general trend toward a new information order, of which the crackdown on the media conglomerate Media Most was the most emphatic. Abuse in the criminal justice system and army continued unabated, prisons remained severely overcrowded, the situation in many orphanages remained desperate, the state continued to be indifferent to cases of domestic violence and rape, and religious freedoms were further eroded. The government once more failed to introduce the structural reforms required to improve human rights observance in these areas.

Vladimir Putin, the acting president following Boris Yeltsin's surprise resignation on December 31, 1999, entered the March 26 presidential elections as a clear favorite and won in the first round with just over 50 percent of the vote-but not without widespread election fraud. Putin quickly moved to solidify his power by reigning in powerful regional leaders and attacking the "oligarchs," Russia's very wealthy new economic elite. He created seven administrative regions led by representatives responsible to the president alone and forced legislation through parliament to strip regional leaders of their seats in the Federal Council.

Putin's background as a KGB official sparked fears of an impending crackdown on human rights. Despite numerous public assurances of support for democratic values, Putin's reactions to critical media coverage and some of his actions fuelled these fears. The appointment of former KGB officer Vladimir Cherkosov as Putin's representative for the Northern Russia administrative region was another troubling sign; Cherkosov was known for his participation in persecuting dissidents in Soviet times and more recently in the

prosecution of environmentalist Alexander Nikitin.

The war in Chechnya continued throughout the year. After taking Chechnya's capital Grozny in early February, Russian troops exercised nominal control over most of the republic's territory. Rebel forces retreated into the mountains to fight a guerrilla war, staging surprise attacks on Russian positions and convoys and murdering Chechens working in the new pro-Russian administration. Both sides showed scant respect for international law, but the far larger force of Russian troops backed by air power and artillery committed the lion's share of violations.

In an attempt to limit casualties among its soldiers, Russia relied heavily on air attacks. Villages and towns were "softened up" by prolonged aerial bombardments and shelling before Russian troops moved in. This strategy led to large numbers of casualties among civilians and destruction of civilian property on a horrific scale. In many of the aerial or artillery attacks Russian officers did not differentiate between military and civilian objects. When targeting military objects, Russian forces frequently used force that was clearly excessive compared to the military gain to be expected.

The city of Grozny, bombed for three straight months, from November 1999 to early February 2000, was essentially treated as one enormous military target. Though the vast majority of civilians had left the city before the assault started, an estimated twenty to forty thousand civilians, many too poor, sick, or infirm to leave, remained. These people were given little thought as the Russian military machine obliterated the city. The only hospital that functioned throughout these months—though heavily damaged—treated 5,600 people (including Chechen fighters) for injuries sustained from the bombing campaign; according to estimates this was only about half the total number of injured. Many thousands of civilians were believed to have died in Grozny alone.

On January 31 and February 1, rebel forces abandoned Grozny. An estimated two thousand Chechen fighters quit the city and stumbled into a minefield that claimed the lives of three field commanders and at least one hundred regular fighters; hundreds more suffered serious injury, including notorious commander Shamil Basaev. Russian artillery and aviation tracked the fighters' flight from Grozny to the mountainous south, destroying the villages through which the fighters passed with total disregard for the civilian population. One of the worst hit villages was Katyr-Yurt. On February 4, up to twenty thousand civilians desperately fled an intense bombardment there that commenced following the arrival of large numbers of fighters in the village. At least two hundred civilians died while many more were injured. Russian soldiers then systematically looted the village and destroyed civilian property.

The village of Gekhi-Chu was given similar treatment on February 7. Russian forces summarily executed at least seven people. On March 4, up to a thousand Chechen fighters entered the village of Komsomolskoye, apparently seeking food and shelter. Russian forces surrounded the village and then, as civilians sought to flee, subjected the village to a withering assault, totally flattening it. At least one hundred civilians were unable to leave the village and were believed killed during the shelling. Hundreds of fighters also reportedly died in the attack. Russian forces refused to provide exit routes to civilians fleeing from fighting and attacked convoys of displaced persons on several occasions. Displaced persons recounted numerous tales of perilous escapes under constant fire and shelling along roads that had been declared safe exit routes. On October 29, 1999, Russian planes fired multiple rockets at a convoy of Chechen civilians, including five clearly marked Red Cross vehicles, on the road between Grozny and Nazran, leaving at least fifty dead. The convoy, consisting of hundreds of cars, was travelling from the Ingush border back to Grozny after Russian forces had refused to open the border to Ingushetia. The attack took place in excellent weather conditions and it appeared inconceivable that the pilots were not aware that they were targeting civilians. The Russian military claimed it destroyed two trucks with rebel fighters in the attack.

Russian forces showed scant respect for medical neutrality. Russian bombs partially or fully destroyed many of Chechnya's main health care facilities, including every single hospital in Grozny. Russian forces detained and ill-treated several medical professionals who had treated Chechen fighters. Chechen rebels threatened to kill at least one Chechen doctor for treating wounded Russian soldiers.

After moving into villages and towns left by rebel fighters, Russian forces carried out "mopping up" operations. These operations, meant to check for remaining rebels, frequently turned into rampages during which soldiers and riot police looted and torched homes, detained civilians at random, and raped women. Just three such operations, in Alkhan Yurt, and in the Novye Aldy and Staropromyslovskii districts of Grozny, resulted in the confirmed summary executions of more than 130 civilians. Human Rights Watch received over one hundred more allegations of summary executions, many of which it was unable to verify.

In Alkhan Yurt, Russian soldiers went on a two-week rampage after entering the village on December 1, 1999. After first temporarily expelling hundreds of civilians, soldiers systematically looted and burned the village and killed at least fourteen civilians. In the Staropromyslovskii district of Grozny, Russian soldiers killed at least fifty-one civilians between late December 1999 and early February 2000; some were simply shot, others were first tortured.

On February 5, Russian forces summarily executed at least sixty civilians in the Novye Aldy and Chernorechie suburbs of Grozny, including a one-year-old baby and a woman who was eight months pregnant. Soldiers pillaged and deliberately torched numerous houses.

Looting was rampant throughout Chechnya. Soldiers systematically stripped bare civilian homes after taking control of villages. Soldiers took not only valuables, money, and electronic equipment but often also food, mattresses, windows, and even floorboards. Many civilians reported seeing soldiers load looted goods onto trucks that were subsequently driven out of the republic. Soldiers deliberately burned thousands of homes throughout Chechnya.

Russian soldiers were believed to have raped numerous Chechen women. Considering the great cultural stigma attached to rape in Chechnya's predominantly Muslim communities, allegations received by Human Rights Watch were believed to represent no more than a small fraction of the total. There was evidence that Russian servicemen raped three women in Alkhan Yurt and six in Novye Aldy. A woman from the village of Tangi-Chu was raped and murdered by a Russian officer.

Russian forces detained tens of thousands of Chechens, often arbitrarily, on suspicion of belonging to rebel forces or assisting them. Many of these Chechens faced beatings and torture at detention centers throughout Chechnya. Many of those detained were released only after relatives paid a "ransom" to police or prison guards.

Large scale arrests started in January 2000 after Gen. Viktor Kazantsev blamed "groundless trust" in Chechen civilians for setbacks in Russia's military campaign. He stated that "only children up to ten and men over sixty, and women, will henceforth be regarded as refugees." By late May, the Russian Ministry of Interior announced that over ten thousand people had been detained in Chechnya since the beginning of the year. At the time of writing, Russian forces continued to detain large numbers of Chechen civilians.

Large scale torture and ill-treatment took place in Chernokozovo in January and early February. Upon arrival, detainees were forced to run through a gauntlet of guards wielding rubber batons and rifle butts. Thirty-two-year-old Aindi Kovtorashvili, detained on January 11, had a serious shrapnel wound to the head when he arrived at Chernokozovo, but guards made him "run the gauntlet" anyway. He collapsed under the blows and died. Guards brutally beat detainees whenever they were taken out of their overcrowded cells for questioning and sometimes during interrogations. Several detainees

described methods of torture, including injections, electric shock and beatings to the genitals, beatings on the soles of the feet, and rape of both men and women.

As Chernokozovo attracted international attention, the Russian government "cleaned up" the detention center and torture and ill-treatment continued unabated at other locations. Some of the most serious abuses then took place at the so-called internat in Urus-Martan, a former boarding school for girls. Allegations of ill-treatment also came from temporary police precincts throughout the Russian controlled territory of Chechnya.

Many of those who were released from detention were "bought" out by relatives. Extortion demands made upon prisoners' relatives were so common that in many cases it appeared that the detention itself was motivated solely as a money-making enterprise. Ransom varied from 2,000 rubles (approximately U.S. \$80) to U.S. \$5,000. Extortion was also rampant at hundreds of Russian checkpoints throughout Chechnya.

Those displaced by the conflict faced difficult conditions in refugee camps in Ingushetia and Chechnya itself. The Russian government's efforts to provide the displaced with food, medical care, and shelter were insufficient, leaving the brunt of the burden to humanitarian organizations. On various occasions, the government pressured displaced people to return to Chechnya by depriving them of food rations or simply attempting to drive the train carriages, the temporary homes of some, back into Chechnya.

Chechen rebels also showed little respect for international humanitarian law. They summarily executed at least some captured Russian soldiers and murdered numerous Chechens who worked in the new, pro-Russian administration. Chechen rebels frequently endangered civilians by placing headquarters and garrisons in densely populated areas or by firing at federal positions from such places. On several occasions, rebels reacted violently when villagers asked them to leave in order to spare their villages from bombardments. Chechen criminal groups kidnapped one Russian and one French journalist in October 1999. Both were later released. Unknown Chechens summarily executed Vladimir Yatsina, a Russian photographer, in February after kidnapping him in Ingushetia in the summer of 1999.

The Russian government did not hold those guilty of violations accountable. By September, not a single Russian soldier or police officer had been charged with or detained in connection with the massacres in Alkhan Yurt and in the Staropromyslovskii and Novye Aldy districts of Grozny. In Staropromyslovskii district, prosecutors were investigating only one killing out of the fifty-one that were

documented. Officially announced investigations into other incidents lacked credibility. In response to allegations of abuses, President Putin appointed Vladimir Kalamonov as his special representative for human rights in Chechnya in February. The special representative's office provided important services to Chechens but did not significantly contribute to the accountability process.

Chechens in Moscow faced very serious abuses in the aftermath of the bombings of two Moscow apartment buildings in September 1999. Federal and local authorities took a series of draconian administrative measures against non-Muscovites as a result of which many children could not go to school while adults had trouble finding work, getting married, or receiving passports. At the same time, Moscow police were given carte blanche to terrorize ethnic Chechens living in the city. Police dragged more than twenty thousand Chechens to police stations, photographing and fingerprinting many of them. According to the Russian human rights organizations Memorial and Civic Assistance, police prosecuted at least fifty Chechens after planting drugs and ammunition in their clothes or their apartments. Moscow courts found most of these Chechens guilty despite overwhelming evidence that the charges were trumped up. Members of other ethnic minorities also faced increased harassment by police.

When Moscow mayor Yuri Luzhkov spoke of a possible "Chechen connection" following another bombing in Moscow in August 2000, Chechens appeared to be in for a repeat performance. However, the dramatic sinking of a Russian submarine diverted attention from the bombing and police apparently abandoned the crackdown, though not before detaining and seriously beating at least some Chechens.

Moscow authorities used the August explosion to defend Moscow's longstanding *propiska*, or residency permit, system. Federal prosecutors had earlier ordered Moscow to get rid of the system to bring regional legislation in line with federal laws. At the time of writing, Moscow maintained its *propiska* system.

Media freedom was another casualty of the Chechnya campaign as Russia's leadership severely limited access to the war zone and became increasingly intolerant to criticism. Most Russian media voluntarily supported the government's campaign. Those which did not often faced sanctions. Andrei Babitsky, a Radio Liberty correspondent, was reporting from Chechnya without official accreditation when he was detained by Russian forces in mid-January and taken to Chernokozovo detention center, where guards beat him several times. In early February, the Russian government announced that Babitsky had been handed over to a group of

Chechen rebels, in exchange for captured Russian soldiers. Several weeks later he resurfaced in Dagestan and was immediately arrested for carrying falsified identity papers. He was released in Moscow on February 29. A court hearing was still pending at the time of writing.

Media freedom was also under threat outside the Chechen context. On May 11, heavily armed commandos of the procuracy and federal security service raided the offices of Media Most, a media holding that owns Russia's independent television station NTV, radio Ekho Moskvyy, and *Segodnia* newspaper, forcibly holding dozens of employees in the building a full day. The law enforcement officers eventually confiscated part of Media Most's records. Law enforcement agencies denied a political context but the heavy handedness with which the raid was carried out gave it the appearance of a warning to independent media. On June 13, Vladimir Gusinsky, president of Media Most, was arrested. He was released several days later after being charged with large-scale embezzlement. In late July, these charges were dropped when Gusinsky agreed to transfer control over Media Most to the state-owned gas giant Gazprom.

The clumsy response by officials to the sinking of a nuclear submarine in the Barents Sea, which resulted in the deaths of 118 sailors, provoked a wave of criticism in the media, directed against President Putin and other state officials. Non-state media pointed out inconsistencies in officials' accounts and questioned President Putin's decision not to interrupt his vacation. Putin responded aggressively, accusing the media of "lying" and "ruining Russia's army and fleet."

No measures were taken to combat rampant police torture or to reform the judicial system. Police continued to torture detainees in order to secure confessions, using methods like beatings, asphyxiation, electric shock, and suspension by the arms or legs, as well as psychological intimidation. Police also gave privileges to certain detainees to pressure others into confessing. Prosecutors used coerced confessions in court, often as the primary evidence of a defendant's guilt. The procuracy failed to investigate torture complaints promptly and adequately and they rarely led to formal criminal investigations. On October 11, the Moscow City Court stripped Sergei Pashin, an outspoken opponent of torture practices and a leading judge, of his status for criticizing a judgment of a colleague and giving out his work telephone number in a radio program.

On September 13, the Presidium of the Supreme Court dismissed the prosecution's appeal against the December 29, 1999, acquittal of environmentalist Alexander Nikitin. With that decision, the

[BACK TO TOP](#)

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criminal case, in which Nikitin was accused of espionage for the Norwegian environmental organization Bellona, finally came to an end as the prosecution had no further appeal options.

Exhibit 15

Federal News Service

REMARKS BY LABOR AND SOCIAL DEVELOPMENT MINISTER ALEXANDER POCHINOK AT A BREAKFAST OF THE AMERICAN CHAMBER OF COMMERCE IN RUSSIA

[MARRIOTT GRAND HOTEL, 8:35, JANUARY 23, 2002]

Somers: May I have your attention, please. We are about to start our proceedings. I am Andrew Somers, president of the American Chamber of Commerce in Russia. The Chamber is honored to launch its distinguished series program, distinguished speakers program for the new year with a member of the government as prominent and as respected as Alexander Pochinok. He has been Minister of Labor and Social Development since May of 2000 and brought to this most important post and infused his leadership there with deep understanding of the financial factor in the workings of government, having been previously Minister of Taxation for the Russian Federation and also deputy Finance Minister of the Russian Federation.

And he also brought to leadership of this post an appreciation of the role of the legislative process having been elected Duma representative from Chelyabinsk where he was born and educated at the Chelyabinsk Polytechnical Institute prior to completing his studies at the Academy of Sciences where he served as senior researcher.

Mr. Pochinok also has demonstrated great moral leadership. He took an active role and participating in the resistance against the coup attempt in August of 1991, putting his life on the line, building barricades outside the White House and working with the resisters successfully to prevent the coup. As you know, the Labor Code which will govern employment relationship between employer and employees will take effect February 1, 2002. It was signed into law on December 30 by President Putin and Mr. Pochinok, of course, played a key role in both framing the language of the legislation and securing its passage through the Duma and up to the signature of the President.

We are delighted the Mr. Pochinok will address us this morning on key issues reflected in the new Labor Code. Mr. Pochinok, I ask you to come to the podium.

Pochinok: Thank you very much. After such an introduction it is rather difficult to speak. But let us get down to business.

So, ladies and gentlemen, today I will dwell on what the new Labor Code has brought to all of us and on where we will move after it and what good and perhaps not so good things we can expect in the current year.

So, the Labor Code. It was first written three years ago. About a year ago nobody believed it would be passed soon. But we made the only correct decision at the time, we set up a working commission at the Duma. It was the first time in the practice of the State Duma that an ad hoc commission was created for the purpose of drafting a single law. The commission included deputies of all the factions in the Duma. And we found that any deputy -- be he a democrat or a communist or a centrist -- once he becomes immersed in the problems of labor legislation he comes to realize that the solutions should be more or less similar to what all the self-respecting countries have.

Thus, through continuous negotiations which lasted a whole year, we managed to produce this document. We presented it to the International Labor Organization and we got a fairly favorable reaction from it and confirmation that it corresponds to the conventions of the International Labor Organization. The Code has been approved by the labor unions and the

employers. It has been approved by the Russian tripartite commission. It has been signed by the President and it will come into force as of February 1.

Let me note that the articles that have appeared and that claim that the Code has been introduced for a period of one year are absolutely groundless. There are no time limits on the validity of this Code. It is an ordinary legislative act of indefinite duration. As of February 1, the apparatus of the Code, all its rules and nuances take effect.

We will, of course, publish a commentary on the Code, the official commentary of the Labor Ministry and that will not be a new piece of legislation, we will just be explaining individual provisions in it. Once again I draw your attention to the fact that the government ministries are not allowed to publish commentary to laws that modify these laws. So, if we make a mistake in our comments, you will be able to challenge them in court and with other agencies. But we will try to not make any mistakes. We will stick to the text of the Code, but I warn you that the commentary will be huge in size. The Code has grown by almost two times and we expect the commentary to run to several volumes because the sphere covered by the Code is so vast.

What are the new provisions in the Code? Let us take them one by one. First of all, it contains procedures of negotiations between employees and employers, something that was not in the Labor Code before. What are the additional obligations of the employer and what are the additional rights that the Code confers on him?

First of all, neither side can refuse to take part in the negotiations. If the employer wants to negotiate with the workers, they have no right to refuse. If the workers have decided to negotiate with the employer, the employer, naturally, has no right to refuse. The employees should determine their representative. The Code details how this is done. While previously a representative of the labor union was to take part, this is no longer required. The Code describes every conceivable case: when there is a labor union at the enterprise, when there are several labor organizations, when more than half of the employees are members, when less than half of the work force are members, when there are no labor unions at all.

So, right off, an answer to a question: if there is no labor organization, creating it is optional, it is up to the work collective itself. In any case you will find an answer in the Labor Code about what to do and how to pursue negotiations whatever the situation at your firm or enterprise is. Yes, if you have a labor union of which more than half of the work force are members, you have no option. The employees have already made their decision known. They have a powerful labor union and it conducts negotiations. If a minority of the employees are members, the Code proceeds from just one premise: the representative of the employees should represent the opinion of the whole work collective, or at least of a larger part of it.

So, meetings will have to be held to elect representatives, or, if more than half the work force are members of the union, they should get together and determine how they will proceed together. It is impossible to imagine a situation -- and this caused some criticism from small labor unions -- when, for example, they have seven labor organizations at the Volga Automobile Plant and you have to sign a collective employment contract with each of them. It would be absurd. We would hate to have a situation like they had at Sheremetyevo airport when the traffic controllers dictated their terms to other groups of workers at that enterprise.

If the law retained such provisions, it would have been very useful to set up labor unions at the gateway to the enterprise. They would then dictate their will to everyone. This is just not possible at present. In the course of negotiations the opinion of the majority should be represented. By the way, the same is true of strikes. The procedure of calling a strike has been facilitated, it is

now possible to organize a strike at shorter notice, but, yes, we have included a very harsh condition. It is necessary to have the consent of the majority of the work collective.

Why? The reason is simple. Imagine an assembly line at a major enterprise and a group of assembly line workers decide to go on strike. Twenty people go on strike and 50,000 suffer. Yes, a strike is allowed, yes, it is the most potent means of struggle for the right of workers, but the work collective should not suffer. If the majority support a strike, a strike can go ahead. If there are no documents proving that the majority support the strike, the strike is not legitimate. One can collect signatures, one can hold a general meeting or a conference, but in any case the work collective should be legitimately represented.

A collective employment agreement must be signed. This is a novel feature of legislation, we will demand that a collective agreement be signed. This is necessary because we must be satisfied that the rights of workers are protected. We say nothing about the substance of the agreement, this is the subject of negotiations at a specific enterprise. The only thing is that the constitutional rights of citizens should not be violated, the laws should not be violated. All the rest is negotiable. You can write in additional holidays, sporting events, additional terms of pay, work schedules, the main features of work, even the color of the blinds and the number of light bulbs in the building. You are entitled to that. But this is an internal matter for the company and the firm.

Our task is to make sure that the negotiations have been held, the collective agreement has been signed and that the workers know what their rights are. If these conditions are complied with, everything is okay. Moreover, we are aware that in some cases negotiations can be fairly complicated, you may come to an agreement on 90 points but 5 points may be the subject of prolonged and arduous negotiations.

In this case the part of the collective agreement that has been finalized comes into effect. This is normal: what you have agreed on comes into force and talks continue on the remaining points.

About work time and schedule. No great changes have taken place. Russia still has a 40-hour working week. This is the optimum version. It cannot be increased and if it is shortened, this may lead to serious economic problems as the experience of France attests. So, we have kept the 40-hour week. We limit the amount of overtime per week, per month and per year only on medical grounds. You cannot force a worker to work more than a certain amount of time. That is why the Code says that overtime is possible and necessary. If it has been introduced, the employer must make all the necessary provisions for the employees. Extra pay should be introduced if the working day is extended. But only so much overtime can be introduced. But let me stress that this does not apply to cases when the work day has no fixed schedule.

This is the arrangement under which a significant body of employees work. It is the subject of the internal labor arrangements at the enterprise, the subject of the collective agreement at the enterprise and an individual agreement between employer and employee. It would be strange to require that the director general of a major enterprise put in an eight-hour working day and demand overtime pay. He is responsible for the overall result, his work schedule during the day is not fixed, he gets higher pay that is different from the wage scale adopted in the country. So, he has no overtime.

In other words, the category of unregulated work day is preserved. But it must be envisaged in the collective agreement and individual employment contracts. It depends on you, on how employers are hired at the enterprise. But we must be satisfied that those who work and are paid in accordance with the work time should be entitled to overtime pay.

Next. At last a clear distinction has been drawn between overtime work and part-time work. In real situations an employee may combine several jobs. And in some cases economic logic prompts additional pay, while in other cases it does not. It may happen that the nature of the job and the individual contract envisage that the employee performs several functions in several specialties. If he has little work during the day in one area, when you hire him you sign an agreement with him whereby he fulfills several functions. In that case no overtime, no extra pay is in order. This is a condition of employment. You have employed a person to perform several jobs from the start.

On the other hand, if he is engaged in performing his job full time and you additionally assign him a job that is not stipulated in the contract and he spends extra time over and above his 8 hours, overtime undoubtedly arises. So, you have just to look and determine the amount of work a person does.

A similar situation arises when the needs of production change. For example, the enterprise is in a difficult economic position. And you may offer your employee to do some extra work or else you will have to tell him that he is fired because there is no work in his specialty, or you tell him that the enterprise has some work in principle, but in a slightly different line and perhaps for a different pay, but it is still a ready job.

Under the former legislation, a person was threatened with dismissal, or else there was nothing you could do about such a person, he continued to occupy his job and you continued to pay him his wage. Both options were bad. Under the new Code a worker can, if he agrees to, be switched to another job with a smaller pay, but he would still keep his job. This is a normal situation and this situation is described in detail in the Code.

An employee may agree to have his functions expanded. This does not give rise to overtime pay because otherwise an odd situation would arise. For instance, you have a turner whom you pay by the number of parts he produces. He tells you that he will operate not one but five machine tools, this is technologically possible. And he tells you that he will not eight but ten hours. In addition to paying piecemeal for the number of parts are you supposed to pay overtime? No. Because the terms of payment envisage that you pay by the number of parts he produces. He has expanded the number of machines he caters to. He has assumed additional work, right? And you pay according to the pay system agreed upon.

So, I urge you to take a close look at the sections connected with remuneration. They are extremely flexible and the main message is that the enterprise should determine the system of payment that suits the employer and the employees. It is an internal matter for the enterprise.

Yes, there is a single wage scale in the country, but in fact it is part of a guarantee for public sector employees, but no more than that. And by the way, it will soon become a thing of the past, we are planning to reform it. It is not mandatory. It is mandatory in the sense that you cannot pay less than envisaged by the national wage scale, by federal rules and regional standards.

Moscow this year, for example, plans to raise the minimum wage twice. While at present it is 300 rubles, it will be 450 from January 1 in the country at large, in Moscow it will go up, with luck, to 1,370 rubles, Moscow has the right to do it. But this is the minimum wage introduced in the city. Everything that is over and above that sum can be introduced by the enterprise itself. Provided, of course, it is stipulated under the individual contract or collective agreement. An employee may not know what pay others get, but if these common rules are observed, everything is okay.

The terms of hiring and firing workers. Changes there do not seem to be great, but they are important. All the cases when an employee can be fired have been brought into a system. The terms of hiring a worker have been changed a little. Unfortunately the mandatory period of probation for those in their first employment and for young workers have been canceled. The Duma said this is to protect the young. I think the reverse is the case. I think you will be suspicious of hiring a college graduate because under the law you cannot establish a probation period.

I agree that this is a gap in the legislation and that it has to be filled in the future. I think that, in connection with this, it will be more difficult for the graduates to get a job. The entrepreneur will be somewhat unsure but he cannot enroll a graduate conditionally for a test period. Nevertheless, this is perhaps the only gap that exist in this part.

Regarding the pensioners, they can be first employed under a fix term contract. I believe this is in the interests of the pensioner. When a pensioner worked on a contract with unspecified duration, his dismissal became almost inevitable as soon as he reached the pensionable age. Because how would you conclude a sine die contract with a pensioner when he cannot work and cannot meet the qualification requirements? Now a pensioner can be recruited for a fixed term of one or two or three or ten or even a hundred years -- and everything will depend on his health, on your conditions, this will be an individual decision. Help yourselves!

Yes, the possibilities for dismissal have also become broader. This is so although the number of reasons has been clearly given. Indeed, under different paras, there are 14 grounds to fire a man. These grounds are simple and clear. And they sort of streamlined the relations between the employee and the employer. A man may be dismissed if he is ruining the enterprise, if he has done damage to the enterprise, if his actions caused an accident and mortalities -- in short, if he committed one gross violation of labor discipline.

We used to have a remarkable code which protected the rights of the working people, but under that code a man could not be dismissed even if he appeared at work drunk every day. Now I draw your attention to this: if one crude violation of labor discipline has been committed, it must be registered and "certified," everything should be put down formally, because this will provide grounds for a court of law. Thus, a single crude violation and an appropriate reprimand and the man gets dismissed -- it is a normal and understandable procedure.

Then comes the situation when a man does not meet the requirements of the job he holds. You carry out the "attestation". If the man is not attested, of course he can be dismissed because he does not meet the requirements of his job. Yes, you can dismiss a person on grounds of professional incompetence. But I would draw your attention to the fact -- and this is true of all the aspects of the code -- that all contradictions are resolved through a court of law, because the incompetence must also be appropriately registered, because most likely the person will of course sue the employer and naturally, the court will be interested to know why the person is not fit for the job in question.

That is why it is most likely either the attestation or the absence of an appropriate professional diploma or some other objective grounds to say why the man is not good for the job in question. But I would repeat that it is indeed now much easier to fire a person on these grounds. Paradoxical though it may seem but in my opinion this will rather widen the possibilities for employment.

We are also being reproached for sharply expanding the opportunities for fixed term contracts and that this would lead to more dismissals, but I rather believe that in the event of a

temporary expansion of production and a temporary improvement in the economic situation this will make it possible to employ more people. You now have greater opportunities to conclude precisely fix term contracts and our labor inspectorates will be instructed accordingly and will follow the implementation of the code. We understand that the more such contracts we have the better.

Indeed, if a person is employed under a contract with no term indicator and if he performs acceptably, he cannot, if he is below the pensionable age, be transferred to a fix term arrangement without his agreement or his desire, and it is almost impossible to dismiss him, indeed this is a normal scope of guarantees for an employee who is coping with his work.

We have laid down in quite an important detail the cases related to jobs in the North, related to seasonable employments and in all these cases we strove to arrive at just, normal, ordinary and generally accepted solutions to these problems.

Now about relations with the trade unions. What is important to be done? We emphasize the very important role of the trade unions. At the state level there is the tripartite commission, 30 trade union officials, 30 officials from the employers and 30 officials from the government. No law is submitted to the government without being discussed by that commission.

And to tell you honestly this tripartite commission has very seriously changed the nature of its work over the past year. Previously I saw no difference between the position of the trade unions and that of the employers, because the employers were usually represented by leaders and high officials from former USSR ministries -- it just so happened. And so, it was a little surprising when the representative of the employer would bend over backwards to defend the rights of the working people adding it was time to sort it out with these hated capitalists. Yes, one could hear such words. Now Russia's employers have drastically improved their organization and the coordinating employer council is performing quite vigorously.

What is the principle according to which the officials are selected? One official is from the sector which has a nation-wide body of employers, which is to say that among the 30 employers there are representatives from light industry and food industry and steel industry and on and on.

I would draw your attention to the fact that there is no distinction made between foreign or Russian companies -- it is the general principle of legislation. That is why if you wish to actively participate in the adoption and discussion of laws, you must work more actively within the sectoral associations of employers, you should see to it that your representatives be very active because the tripartite commission deals with very important issues and in this way we will improve the situation.

Same is true of trade unions. The trade unions are represented in accordance with a very simple principle -- one representative from each sector. That is why again here there is the need for vigorous actions by your trade unions, if they exist, so that they be represented.

What is important here? It is that last year the tripartite commission approved all the legislative initiatives of the government by a consensus. The trade unions supported the pension reform, they supported the budget changes, they supported changes in the tax laws and they supported the Labor Code. Eventually, they realized that they would benefit from it in the final analysis.

Why can one hear statements by individual trade unions saying they are against? Indeed, and we do not hide this, some of the trade unions lose. Who is the loser? It is those who cannot

bargain, those whose main task was to organize strikes, those whose chief task was to achieve trade unions' economic participation in the activities of the enterprise. Neither the first nor the second nor the third is acceptable now because the new code implies serious bargaining to safeguard the interests of the working people. The task of the trade unions is to provide protection of the interests of the working people.

Yes, indeed, the trade unions have been completely placed outside the economic sphere. Why so? It is because otherwise we would be violating the legislation on joint stock companies. We would be violating the rights of shareholders. In what way can the trade union have the right to participate in the distribution of the profit of the enterprise? In what way can it be empowered to request the financial information and influence the managerial decisions, when the trade union is not an owner? It means the enterprise is damaging the owner of the enterprise whoever he may be.

The trade union performs its own duties -- it is defending the rights of the working people. Indeed, a trade union has been granted huge opportunities to safeguard the workers' rights. If a trade union leader is protecting the rights of the working people he cannot be dismissed, categorically so. He cannot be punished in this connection, categorically so. All this is correct. But the union leader cannot make decisions concerning the profit of the enterprise. Yes, if the collective management body or the of shareholders have a meeting, the representative of the labor unions has the right to attend if he represents the interests of the employees. He has the right to speak and to present the opinion of the work collective. But he has not right to vote because he is not a shareholder. That is, he has the right to vote if he is a shareholder. If not, he has no right to vote. But he must be given a hearing.

Please, make a note that this is a new procedure, taking into account the opinion of the labor unions. It is not just a word, it is a totally new procedure. Formerly, there were many things that could only be done with the consent of the labor unions. It was reminiscent of a famous Soviet film in which one character tells the other: "I will shout and you will answer".

In other words, the trade unions could make decisions, but they were not liable in any way economically. Now the procedure is called "taking the opinion into account". The labor unions must be apprised of the decision. They may express their opinion, they may write down that they disagree with the dismissal of an employee or with the changes in the schedule of the enterprise work. They may go on record as disagreeing. They can express that opinion within a certain fixed period.

But the employer may choose to take that opinion into account or to ignore it. He may say, in spite of the opinion of the labor union, this is my decision. Beyond that the labor unions have the right to initiate a procedure of a collective labor dispute, and we will expand labor courts with this in mind. The labor unions have the right to call a strike, a very powerful weapon, and make sure that all their rights are respected.

So, the employer should carefully weigh the situation. If he knows that as a result of his decision the majority of employees will be against and this threatens a strike and the situation will seriously deteriorate, he will refrain from making such a decision.

On the other hand, such a procedure will rule out in the future conflicts like the one that occurred at McDonalds when we punished the management of McDonalds and some executives were fired and others were punished. It was in line with the labor legislation that we had in the country. I understand that the labor conditions there are normal, the social programs are interesting and they take care of their employees. But the management of the company made a terrific strategic

blunder at the time. It had attacked the labor union that did not have the support of the majority of employees.

We took opinion polls at the enterprise and found that the labor union was not popular. But under the law of the time it had to pander to even the smallest labor union and meet its requirements. Now in a similar condition the labor union should present proof that it has the support of the majority of the work force. If it has the support of the majority of the work force, then, okay, it is right. But it is not the case, then the labor union does not represent the work collective.

Consequently, the management of the company has the right to take a corresponding decision because otherwise a ridiculous situation may arise. You may find it funny, but at least one enterprise has formed a union of violators of labor discipline and it still exists and that is how all the members of the union are registered in its charter. Its goal under the charter is to violate labor discipline. All the members of that union are members of the labor union committee of the enterprise. So, under the law of the time they could neither be fired nor punished. They are all labor leaders fighting for their right to violate labor discipline.

Under the new Code this is only possible if they have the support of the majority of the work force. I very much doubt that the majority of employees will support such a historic labor union. You understand why minority labor unions have become so worried. They are deprived of the opportunity to terrorize the rest of the employees -- that's all.

Next. The section on labor protection and safety rules has been strengthened. This was necessary. We have too many accidents with a lethal outcome, group accidents. And, yes, in Russia there are still a lot of slackers and sloppy workers. That is why we introduce harsh punishment for violation of safety rules and we will continue to tighten labor safety regulations. We still demand strict compliance with the standards of dust content in the air, illumination, and the use of protective gear. We admit that we have not paid enough attention to it in recent years. But you would agree that these are absolutely necessary things.

We do not impose any limits on the development of the social sphere and social protection of employees at enterprises. You even see that there is greater possibility under the new Code to write off the incomes of natural persons if they are used for purposes of education, health care or charity. The possibilities of organizations of including in the costs and excluding from the profits the monies used for good social purposes have been broadened. Because if you look at the law on profit tax you will see, that profit becomes profit and normal expenditures becomes expenditure as it should be.

You are given greater opportunities. But your actions must be fixed. Let me explain. Let us take a practical example, the single social tax. If the collective employment contract envisages some benefits to the employee, where do they come from? They come from the manufacturer's cost. If they are not envisaged, this type of benefit comes from the profit. You must sit down and calculate what is better for you.

We would be happier if it were more beneficial for you to include it in the production cost. I foresee a question. A certain confusion in the text of the law adopted in connection with the pension reform regarding the single social tax. It was adopted on the last day of December and there is one vague place. It will be spelled out by a special instruction of the Ministry for Taxes and Charges. Obviously, there will be no increase of the tax by 14 percent, as some paper have suggested. You have the right to write off the assets contributed to the Pension Fund from that tax and in future the assets contributed to private pension funds as well. You are entitled to do that.

And I would recommend you to analyze the composition of benefits paid to the employee and determine the optimal variant and the optimal strategy.

I will speak now a little bit about other laws that will follow the Labor Code because we are trying to continue to optimize the tax system. Let us speak about what will come afterwards. The pension legislation has in the main been adopted, the Labor Code has been adopted. And there is a possibility to work with parliament and to pass some other important laws.

What lies ahead is the reform of medical and social insurance and a series of laws on the pension reform. What lies further down the road? Occupational pension insurance. That law is in the finishing stretch. Some complicated points remain but I am sure the law will be adopted. The main thrust of the law is simple. People working in harmful conditions can retire on a pension earlier by five or ten years but there should be a source of funds for the pensions to accumulate. While previously Russia's Pension Fund was a big bag where all the money was put and then pensions would be taken from there, now every component is strictly "personified". Each of you working in Russia will have your own number and after the first year will get the report of the Pension Fund about how much money your employer transferred to you so that you could exercise your pension-related rights.

This means that there will be no source to take the money from to pay somebody else. That is why we say, in the first place, dear company, please specify how many employees you have working in the harmful production conditions. Previously, when the state would pay all this anyway, every company, paradoxical though it may seem, was interested in as many employees as possible working in the harmful conditions. But this is absurd! That is why we are trying to establish order with regard to lists one and two because quite a number of professions and trades have already ceased to be hazardous to health over the period. Secondly, the company must decide how many people it has really working in the hazardous conditions and try to organize it the way that there be less people working there because it will have to pay extra money.

Next. Where does one pay the money? The employee and the employer must come to agreement about what is to be done. They can agree that the funds be remitted to Russia's Pension Fund and then the employees will be receiving an extra pension by 5 or 10 years earlier from the Pension Fund of Russia. But if the company believes or the employee believes that this is overly expensive -- and it involves indeed big money -- then a scheme may be chosen, related to the use of a non-state pension fund -- help yourself -- if you really believe, if you have seen that that scheme is more profitable and so the money will go there. Or it is possible to agree with the employees of the enterprise that they lose the right to that pension to be drawn several years earlier, but then there will be an appropriate addition to the wage under this arrangement.

Yes, without a doubt, there are limitations and there are types of work on which we cannot permit an employee to work longer than the specified term and that is why still for some of the trades there remains an earlier pension because this is due to the health requirements. In this case only this thing is decided: where is money to be remitted? What pension protection would be adopted -- into a non-state pension fund or into the state pension fund? Again, this is a voluntary choice.

I anticipate in this connection that there will be a serious increase in the workload for the pension funds and insurance companies, especially considering that the legislation on cumulative pensions is clearly coming to a close. You have noticed that of late there have been several quite critical articles, both ways, about the fate of this legislation. One thing is clear, however, namely, that the law will be discussed by the Duma in February. In the most extreme case all the amendments from the government will get there a week after. The law is becoming even more

revolutionary than it was. The scope is expanding for the enterprise to decide what it is to do and where it is to transfer the accumulated part of a worker's pension.

There will be a big discussion about the deadlines within which it can be assumed that this may take effect. You know that according to the official position of the government it is from January 1, 2004. But I assume that the deputies will quite likely vote for an even earlier deadline. At any rate a deadline in 2003, and the extreme option is 2004 and a man would have the right to decide where he would like to direct the accumulated part of his pension. Either it will be into one of the portfolios of Russia's Pension Fund or into a non-state Pension Fund. This will be decided by the man himself. He himself chooses the type of old age insurance. So, it must be a very informed decision.

If the decision is not taken, then without a doubt the money stays in the Russian Pension Fund and is invested in the least risky assets -- it's an ordinary normal decision.

Same will be the case in the reform of medical and social insurance. These funds will most likely be merged into one a year from now, the tariff will undoubtedly be reduced, meaning that part of the tax that goes to the medical and social insurance. The principal difference is very simple: the employee will decide about the insurance company into which they will eventually transfer the funds which go to the insurance in the form of the single social tax. It is because now the quality of our health care is regrettably bad. Nevertheless, the firms pay very, very big money.

I heard numerous complaints when enterprises would say: "How come we are transferring huge money, we are spending colossal amounts on insurance of our employees and we are not getting anything from the health system. In this particular case, however, they introduce the man's control over the money. He decides about the insurance company which should meet certain requirements. He can see the bills filled out by the doctor and the bills filled out by the medical institution. So, eventually the man selects a health establishment for himself -- which is quite a normal thing. If big money is paid then it is necessary at least to make sure about the quality of its utilization.

That is why a normal, simple and logical system of medical and social insurance will be introduced. In the process, the insurance business will win and again money will appear for investment, same as in the case of pensions and money will be available for long-term investment. The pension funds are expanding and increasing. I think this will improve the investment climate and so these are our next actions.

Yes, a package will be submitted concerning the social benefits. Why and what for and how? We are not beasts, we are not planning an abolition of the existing benefits for the population. People are poor and they need protection. Nevertheless, a significant part of the preferences are either economically impracticable or bad economically. It is because when a benefit is provided, for instance, in housing and utility services, one must realize that they are made available at the expense of other citizens of the same town.

And there is no other source. It is precisely for this reason that we are introducing an elementary order in all this. If you go down into the metro in Moscow you will see that half of the people go through the turnstiles and half go past the controller and show some booklets -- there are 160-odd types of passes that can get you into the underground free. And I can tell you a story. We were shown a special album about how those controllers are taught to work in the metro. They are shown the album and the photos of all the identity cards which give you a free passage. Some, however, just say they are secret, so we don't provide a photo but then how can you go into the metro free of charge with such a pass. Indeed, how?

Naturally, we are eradicating these unacceptable practices. That is why we are introducing magnetic chip cards and that is why we are deciding who has the right to travel in the underground free with a pass and over a longer term we will come to a simple thing, namely, that all departments whose officials must travel free of charge ex officio, should buy the travel tickets and distribute them among their employees and these travel with their magnetic cards quite freely passing through the turnstile. And I think that the poor Duma deputies will somehow survive the abolition of their right of free of charge travel in the underground. I think it will be quite a normal thing to do.

So, we shall be submitting such appropriate laws. Why does Russia have bad passenger transport? Part of the reason is that in some cities more than half of the population have the right to use it free of charge. So, it is starved of resources. Every free ride has to be paid for by somebody. So, we will review the subsidies for free fares and we will see how these privileges are canceled.

The same goes for the reform of the housing and utilities sector. A person will have broader access to subsidies if he lives in an apartment that meets the social standards and if his incomes are so low that rent exceeds a certain percentage of the income. In that case he will get a subsidy. All the other privileges will gradually be shed in the course of the housing reform. And you should watch out for changes in the House Code.

By the way, it will be an important part of the activities of companies. Land relations were totally unregulated in Russia. That is why the adoption of the Land Code on the one hand and of the future Housing Code on the other (which will happen this year) will require you to take some serious actions. You will have to read these documents carefully and see how the property rights are formalized. Why? Because major opportunities are opening up for the creation of condominiums, property complexes: the building, the land and the acquisition of normal property rights. In many cases the creation of condominiums is extremely beneficial for enterprises and organizations.

Yes, Russia hardly had such practices in the past. In Moscow, although the number of partnerships of owners is fairly large, there are less than 90 real condominiums that function normally. So, there is a lot of work to be done.

In many cases to protect the firm, and to protect your employees it will make much more sense for you to create condominiums and the creation of bodies of property increases the value of the enterprise assets, protects the firm and its employees. But this could form the subject of a separate and serious meeting after the new Housing Code is adopted. It will be a revolutionary code.

Next. We will complete work on tax legislation. Next in line is the tax on added value. Also, further down the road, there is the improvement of the profit tax and further reduction of the single social tax. Please, pay attention to the dramatically improved possibility of regression on the single social tax. At present the possibility of regression has appeared if an enterprise pays a wage of over 2,500 rubles. And we will continue to diminish the rate. I think all these measures will make business and more transparent.

I could go on talking to you about plans, but I have been speaking for about an hour and I have probably bored you and you want to ask me questions. I am ready.

Somers: Thank you for that most enlightening summary of the practical implications of the Labor Code and related legislation on employers. Questions. We have the mike. You are invited to introduce yourself if you would like to.

Q: Mr. Minister, I have the honor in the autumn to hear your speech at a lunch at the American Chamber and you said that a collective agreement need not necessarily be signed. Has the law changed that? And I have two more questions, if I may. The law writes, in Article 134, that indexation of wages is mandatory. That sounds a little odd. And thirdly, the unregulated work day. That's Article 100. It says that employees could be given additional jobs from time to time and this should be compensated either by additional leave or as overtime. This seems to contradict --

Pochinok: I understand. First. Yes, a collective agreement is mandatory. Let me stress once again that we do not interfere into the content of the agreement. But if interests arise on any of the sides -- the employer and the employee in conducting negotiations, the process is launched and a document should emerge as a result.

If neither side initiates negotiations, then, naturally, there won't be a collective agreement. That is, if neither the employer, nor the employees want to engage in negotiations and they have expressed their opinion and everybody is happy, that's a wonderful situation and we can't do anything about it. But if at least one side wants to negotiate, then the result will be a collective agreement.

Second. Regarding the indexation of wages. These are requirements for the government. We have written down a very simple thing: the wage must ultimately be higher than the living minimum. Wages in Russia are extremely low, they need to be raised, the G-8 countries have made that very clear. It is necessary to see to it that the 1.2 billion people in the world who earn less than a dollar a day should earn at least a dollar and a half a day. That's why we are raising the minimum wage quite rapidly. We started from a base of 83 rubles and have gone up to 450 and we will try to raise it further.

There are, of course, economic limits for wage raises. We will in the following year raise it by about 5 percent, that is, the minimum wage will amount to respectively 35 and 40 percent of the living minimum. If your enterprise has achieved that target, no additional requirements will be made. I repeat that the system of remuneration is an internal affair of the enterprise.

You should provide minimum guarantees for the employee. You should seek to eventually raise his wages. But if you meet the standards set in the country as a whole and in a given territory - - because as I have said, it will be substantially higher in Moscow, then you are okay. This is for the government, not the employer.

Yes, your employees may demand higher wages, this is the normal right of working people. But this is the subject of your internal bargaining and not a requirement of automatic indexation. There exists the requirement that the minimum wage in the country should be increased at least to keep up with inflation. And then there is the requirement that the state should raise pay to public sector employees at least as much as the inflation goes up. This is natural, wages must go faster than inflation. On the other hand, the government has promised to take very tough measures to combat inflation.

We are worried about inflation and you see that we are looking for ways to stop it. As for Article 100, pay attention to the nuances. If an employee is not on unregulated work day and is not on the list of such occupations, you pay him for the work time spent at work. If he spends additional work time, he is entitled to overtime. If you don't want it, your task is that the individual employment contract should stipulate an extended range of duties: he should assume an obligation to do additional work. Then you won't have to pay overtime.

But if your employment contract says that you have hired a person for a 8-hour day and you offer him to work ten hours -- I stress, you offer, not he offers, because in the latter case no obligations arise -- you are forcing him to work longer hours. And that leads to overtime pay. So, it is a very flexible system and you can find a variant that suits you best at your enterprise.

Q: American Express. Several short questions, if the audience permits me. First. Many workers see the increase of the vacation period as an important gain of the new Labor Code. But attending several seminars recently, including meetings with you, I didn't hear that vacations really become longer.

Pochinok: I get your question. We have just replaced work days with calendar days. The leave is 28 normal calendar days. In 90 percent of the cases there is no real differences.

Q: And in the remaining 10 percent?

Pochinok: Well, there are some situations, some occupations where the difference between calendar and working days leads to an additional day of leave. But this is an exception, not the rule. A person has the right to rest for 28 normal calendar days. We have not lengthened the vacation, that is economically impossible, but neither have we shortened them.

The only thing that we will certainly do is to shift days off in Russia in a different way than we have done up until now. This, thank God, has been made the responsibility of the government and we are stating the first experiment this year. We have borrowed the day off from the week that preceded the May Day holidays. You will have noticed that May 1 is a holiday and May 5 is Easter. So, we have shifted the Saturday from the previous week. There will be an additional working day in April, but there will be days off from May 1 through May 5 in a row.

Practice shows that given this combination of holidays in the country nobody worked anyway (laughter). So, we just want to put this in order. And if we see that it works out well and that people have a normal mini-vacation in May we will expand the experiment and see if the same thing can be done with regard to Christmas so that people will have more time to rest without reducing the actual work time. This is the only change.

Q: A clarification then. If a worker takes two weeks vacation we are obliged to allow him two weeks, and the rest he can take one day at a time, if he likes to. And it adds up to 14 plus another 14 calendar days.

Pochinok: You are limited to this time period. But I would recommend that the collective agreement clearly stipulates what is more convenient considering the regime of your enterprise. We just give the total number of days, but we do not specify. We will toughen our stand, we will demand in the future that the employee should take a vacation for the simple reason that it is good for his health. But while there is still a chance, I advise you to take advantage of it and write down in the collective agreement the special features that are peculiar to your organization, the way it is more convenient to you.

Q: And a follow-up to this topic. There are some organizations, including some government organizations which can afford to have their employees 28-day vacations at one stretch. My question is as follows. The other day I attended a meeting with Mr. Panin. And we were told that an employee will be entitled to compensation only after the employee logs up 56 vacation days that he has not used. Where did that figure come from? And how legitimate is it from your point of view? What is the outlook for the solution of this problem?

Pochinok: This is still a matter of debate. It is Mr. Panin's point of view. The law is vague on that issue, I understand. There are two schools of thought. Some think categorically that an employee should be obliged to take a vacation to preserve his health, while others say that if he finds it economically beneficial, he may settle for a compensation instead. So, while there is this difference of opinions, the issue has not been finally resolved. We will comment on it separately.

Q: Can I ask you a couple more questions? The duty of the employer to pay wages twice a month. This was the rule before and nothing has changed. Nevertheless, in practice this rule was often violated, but the enterprises have been given greater leeway on the issue. To put it crudely, a decision may be made "in response to the expressed wish of the employees to get their wages once a month". Will that be qualified as a violation?

Pochinok: It will not be qualified as a violation because we have offered the employee some guarantees. We have given him the right to get pay twice a month, we have given him the right, if there is a delay of wages by more than 15 days to stop work and initiate a collective labor dispute procedure. If the workers of the enterprise think it is more convenient in a different way, and if it is fixed in a corresponding document, naturally, no violation of rights occurs. It should be the will of the employees themselves.

Q: Mr. Minister. I have a question which goes a little beyond the topic that you spoke on. But you have touched upon the single social tax. The latest changes introduced in Chapter 24 of the Tax Code in December regarding the application of Article 241 deals with the regressive tax scale. The second clause is so formulated that I have heard many private comments from your former colleagues that regressive rates cannot be used until the end of the tax period regardless of the fact that the conditions you spoke about will be preserved.

Pochinok: I see. It is a firm condition: if the wages in the tax period in the calendar month exceed 2,500 rubles, the provision applies. I think the Ministry for Taxes and Charges will issue clarifications. The trouble is, the instructions have not yet come out. We are telling them to hurry up.

Q: Ernst & Young. Mr. Pochinok, I would like you to comment on Article 131 of the Labor Code which envisages two forms in which wages can be paid: in cash and in kind. The cash form means that wages are to be paid only in the currency of the Russian Federation. Article 11 says that the Labor Code now applies also to foreign organizations and foreign nationals.

Does it mean that the law maker has limited the right of foreign organizations to pay its employees in the currency of another state in a form allowed by the currency legislation?

Pochinok: We are a sovereign state, so, sorry, we demand that settlements on the territory of the Russian Federation should be in the currency of the Russian Federation. If you remit money to your employee to his account, especially outside Russia, we have no questions. If you do it in the Russian Federation and if it is convenient to the employee, you can remit money in dollars, but in all the documents we would appreciate it if you state the pay in rubles and stress that it is being paid in rubles and so on. Over a longer term we shall also be making the currency legislation more strict. In this sense so far, you will excuse me, was too humane. The ruble must function in the territory of Russia over a longer term, the trend will be as follows. We understand the life situation. We are aware that now in many cases it is objectively more convenient for the companies to operate in dollars but you would agree that, to strengthen the national currency we will consistently be pushing the dollar outside the circulation in the country -- it is a normal trend.

In this case the Labor Code is not a direct action law. But over a long haul of the evolution of the currency regulation, the changes I hope will be in this direction.

Q: Mr. Minister, I would like to ask a question that can be topical with this audience. The fact is that the norms of the new Labor Code do not cover the conflicts of law in accordance with the international labor law. Nevertheless, there are cases, albeit rare, when Russian citizens get employed in foreign countries based on a labor contract drawn on the basis of a foreign labor legislation. In this respect there is a certain gap in the Russian legislation which does not permit or does not resolve a particular labor related conflict. Would it not be proper to add to the Labor Code an appropriate part of chapter dealing precisely with the conflict of laws?

Pochinok: There was a question about why we decided against doing it. The Russian legislation in its approach differs, for instance, from the US legislation, where there are cases when the law of a State sharply differs even from the US international commitments. We recognize the practically absolute primacy of international law.

The general agreement between the government and the trade unions and the employers provides for submitting 15 ILO conventions for ratification. We are consistently ratifying them. In all cases when we have recognized the ILO conventions, when we recognized international regulation -- and we have already done almost everything and with the adoption of these 15 conventions we have practically in all parts of the labor law accepted the norms of international law which apply. Practically any of our courts of law will confirm this. There are several special restrictions but against they are common knowledge: the international law applies. Here we can simply confirm this, the more so that if Russia ratifies the document concerning the selfsame sailors, it will comply with it even domestically. There are no problems -- the international law applies.

Q: Yevgeny Reizman, Baker and MacKenzie. Two questions. The first. The new code provides for quite many formal requirements to be met by employers, including during employment, and it takes effect from February 1 and was signed on December 30. The difference is one month of which two weeks were New Year celebrations. Will the tax authorities give the employers some time to prepare? This question is not very funny if one thinks about this in practical terms, with account for the powers of the labor inspectorates. This is the first question.

And the second: Confirming the membership and confirming the support of trade unions. Membership in trade unions creates additional duties for the employer. At the present time the trade unions are not obligated to register. In principle, their internal documents are not regulated in any way. The trade unions can issue membership cards and they may do without any cards. This is to avoid any repetition of what happened to McDonalds, when a man comes and says: "We represent half or more of the personnel." How will this get confirmed. Thank you.

Pochinok: Everything is quite simple. The trade union legislation does not require -- and I will begin by answering the second question -- does not require the existence of membership cards, this is not quite a good thing, but it is a fact. Nevertheless, as long as trade unions exist in your enterprises and as long as they ask for nothing, no collisions occur. The trade union can say its membership is 100 million -- it is its right.

But if procedures are set in motion, related to the new Labor Code, there are indeed quite strict requirements of confirmation. You have the right to say: would you prove that? If the majority of your labor collective so wishes, you must agree to this. But you must ask for proof. It means there must be a legitimate confirmation which recognizes that the trade union membership is half of the total workforce.

I would repeat that we have to understand that the bulk of the contradictions will then be resolved in the court of law. So, try to get yourselves into the judge's shoes. What confirmations will the judge finally accept: a membership card, appropriate powers from the enterprise employees and so on. All this will have to be assembled and proved without a doubt.

I am expressing my unofficial opinion but it seems to me that Russia's trade unions officially cover 17 percent of the working people, I am strongly inclined to think that the percentage is less than 10 in reality. So, we will now be urging the trade unions to confirm their real membership, the one they have.

Q: And the first question concerning the deadlines for introduction.

Pochinok: A tax inspectorate is not authorized to verify compliance with procedures spelled out in the Labor Code. It is expected to do so only with tax legislation.

Same with labor inspectorate. We understand that there must be a transition period. We may now issue a huge quantity of normative regulations related to putting the Labor Code into effect. We already have a work plan with over 60 items. We will explain everything. We perfectly understand the situation.

Why was it necessary to put the code into effect from February 1 -- it was for the code procedure to begin to operate. But until you have adopted a particular document until you have carried out certain actions, old norms will continue in effect. You yourselves wish the start of the application of the norms of the new code so as later to adjust everything in line with it. So, as long as the old norms are still in effect, it is in your interest to act swiftly.

I understand that the transition period will take quite a long time. It is simply a colossal amount of work.

Q: Tatyana Belozerova, the company Gillette. Mr. Pochinok, I would like to know your unofficial opinion on the following question. Operation in a market economy and investing quite big amounts in the development and training personnel, we would like to find out whether it is generally legitimate to provide in an individual labor agreement some limitations on an employee's rights to become employed by a competing company for a certain period of time.

Pochinok: And why not? Under the code you undertake not to limit an employee in his professional improvement. If he wants to obtain a set of professional knowledge -- meaning that if your company has a man who sweeps the streets and he wishes to get a vocational training in some area, or graduate from an institute, become post-graduate or a doctor of sciences, he has the right to. And he may not wish to perfect his know-how in sweeping the street but in any speciality that your company can use. He utilizes the right of extra vacation and the right to a changed daily work schedule -- all that is related to the legislation.

And we also ask for this. And you are expected to provide that. The rest is the problem for your internal agreements. If you have an individual agreement with a man and you provide in it that he cannot go to work at your competitors, if the man has voluntarily signed it, he thus has voluntarily committed himself. You don't have the right to demand this from him but you simply tell him. We are providing you with additional preferences, we are helping you to get an education, we wish to prevent your knowledge getting to the competitors. So, it is the man's individual choice.

It is the same with a man who joins the civil service and there he signs under a certain set of restrictions. These are voluntarily self-imposed, you realize that? You are not forcing him, he voluntarily assumes the commitment. So, if this is formalized in this manner, it is quite legitimate. It is a usual form of competitive struggle.

Q: Tatyana Golubinskaya, Intercomtechnologies. I have a practical question. Should amendments be made in the employment contracts that were signed prior to the introduction of the new Labor Code?

Pochinok: The employment contracts signed remain in force. I recommend that you do it because new opportunities are opening up for the employees and the employers. But it is not obligatory. All that has been signed remains in force, as before.

Q: Can you tell me if the new Code has anything to say about the possibility of forming several labor unions if the enterprise is a diversified one?

Pochinok: Nobody imposes any limits on the number of labor unions. You can have any number. But we set the requirement of a single collective agreement. If there are several unions at the enterprise, they should decide before signing a collective agreement which of the labor unions represents the interests of the work force, or they should form a collective body to represent these interests so that each of the labor unions should not harass you individually. But this is up to the enterprise. There may be no labor unions, or there may be a hundred. That's no problem. But for you there is a single collective agreement and a single representative of the interests of all the employees.

It is important for us that this should be focused so that you don't have each of them coming to you and saying: "I represent the work force". And then another one coming to you and saying: "It's I who represent the work force". This is ridiculous. They should sort it out among themselves who is the representative.

Q: Bobrova Olga. Danone-Bolshevik. Could we go back to the question of Labor Inspectorates because their functions are greatly broadened and they even include compensation for moral damages, which actually comes under the jurisdiction of the law court.

Pochinok: Labor Inspectorates do not charge moral damages. It won't happen. God forbid. If the rights of workers have been violated, the issue of moral damages arises, but according to our law, if you agree with this, you pay yourselves. If not, the matter is taken to court. The inspector merely makes a record of this. He does not come to you with a gun and does not carry away a bagful of money. He just goes on record that a violation has occurred. If you agree, you pay the worker, not the inspector because you have inflicted moral damage on the worker. If you disagree, then you go through the normal court procedure and obey the court ruling. We are not changing the law there.

I stress that the tax inspection does not collect moral damages either. Note that you pay voluntarily. And note also that the number of cases that we lose in the law court is growing. And I am none the worse for it. It just shows that the court system is performing better and that it can rule both ways. So, one needn't fear court procedures. The main thing is to set down the positions.

Q: I work with a company that provides software for telecommunications. Could you speak about labor regulations regarding high-tech companies.

Pochinok: No special features are envisaged in the Code. We singled out only those sectors which are very, very special. So, you will have to think a little harder on the form of collective individual agreements.

I think we would look like a bull in a china shop if we tried to introduce such stipulations in the law. We would just stand in the way of company development.

Q: Lyudmila Kuptsova, BMW. We are a Russian company with 100 percent foreign capital. We depend entirely on financing by the parent company. Can lack of funding provide grounds for hiring workers under a limited-term labor agreement of indefinite duration until funding runs out?

Pochinok: If you open the Code, you will see that for economic reasons you may hire workers for a term. If you are not sure of the stability of the market, if your expansion is temporary, funding from your parent company means only one thing, a change of the market situation. So, you do sign term agreements with your employees. You can even quote a corresponding passage from the Labor Code to be on the safe side. The market is indeed unstable. This is something that any court would recognize.

And make a note of the issue of law courts. The Moscow Labor Court has opened. This is a voluntary decision of Moscow employers and employees. It considers collective labor disputes. And if the experiment is successful, we will change the laws to create special labor courts. It would be better that way.

Its procedures at present are very close to the German procedures. We have carefully copied German experience.

Q: A clarification, if I may. If a company has no labor union and the employees have failed to organize themselves and have not demanded that a collective labor agreement be signed --

Pochinok: It means that it suits them.

Q: So, in that situation no collective agreement is concluded?

Pochinok: No agreement if everybody is happy about it. But if they get together and decide that it is necessary, then there will be a labor agreement.

Somers: If I might just pay tribute to our sponsor, Norman DL Associates who sponsored this very important event for the Chamber and they kindly offered to provide a summary of the Labor Code that's available at the table to the left of the podium. I'd like to thank Minister Pochinok for two reasons. First of all, for accepting my invitation to speak here today, but also to travel to Petersburg in about a week to speak to our chapter of about a hundred firms in St. Petersburg. So, we are delighted that he has agreed to give us such quick information and feedback on the Code.

And finally again I'd like to thank you for a most insightful and practical insight into the Labor Code and in particular the Code's relationship to other legislation such as the pension code. Thank you very much.

Pochinok: Thank you.

Exhibit 16



Czech Republic

[Introduction](#)
[Geography](#)
[People](#)
[Government](#)
[Economy](#)
[Communications](#)
[Transportation](#)
[Military](#)
[Transnational Issues](#)
[Print This Frame](#)



Czech Republic Introduction

[Top of Page](#)

Background: After World War II, Czechoslovakia fell within the Soviet sphere of influence. In 1968, an invasion by Warsaw Pact troops ended the efforts of the country's leaders to liberalize party rule and create "socialism with a human face." Anti-Soviet demonstrations the following year ushered in a period of harsh repression. With the collapse of Soviet authority in 1989, Czechoslovakia regained its freedom through a peaceful "Velvet Revolution." On 1 January 1993, the country underwent a "velvet divorce" into its two national components, the Czech Republic and Slovakia. Now a member of NATO, the Czech Republic has moved toward integration in world markets, a development that poses both opportunities and risks.

Czech Republic Geography

[Top of Page](#)

Location: Central Europe, southeast of Germany

Geographic coordinates: 49 45 N, 15 30 E

Map references: Europe

Area: *total:* 78,866 sq km

land: 77,276 sq km

water: 1,590 sq km

Area - comparative: slightly smaller than South Carolina

Land boundaries: *total:* 1,881 km

border countries: Austria 362 km, Germany 646 km, Poland 658 km, Slovakia 215 km

Coastline: 0 km (landlocked)

Maritime claims: none (landlocked)

Climate: temperate; cool summers; cold, cloudy, humid winters

Terrain: Bohemia in the west consists of rolling plains, hills, and plateaus surrounded by low mountains; Moravia in the east consists of very hilly country

Elevation extremes: *lowest point:* Elbe River 115 m

highest point: Snezka 1,602 m

Natural resources: hard coal, soft coal, kaolin, clay, graphite, timber

Land use: *arable land:* 41%

permanent crops: 2%

permanent pastures: 11%

forests and woodland: 34%

other: 12% (1993 est.)

Irrigated land: 240 sq km (1993 est.)

Natural hazards: flooding

Environment - current issues: air and water pollution in areas of northwest Bohemia and in northern Moravia around Ostrava present health risks; acid rain damaging forests

Environment - international agreements: *party to:* Air Pollution, Air Pollution-Nitrogen Oxides, Air Pollution-Sulphur 85, Air Pollution-Sulphur 94, Air Pollution-Volatile Organic Compounds, Antarctic Treaty, Biodiversity, Climate Change, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Wetlands

signed, but not ratified: Air Pollution-Persistent Organic Pollutants, Antarctic-Environmental Protocol, Climate Change-Kyoto Protocol

Geography - note: landlocked; strategically located astride some of oldest and most significant land routes in Europe; Moravian Gate is a traditional military corridor between the North European Plain and the Danube in central Europe

Czech Republic People

Topic Page

Population: 10,264,212 (July 2001 est.)

Age structure: *0-14 years:* 16.09% (male 847,219; female 804,731)

15-64 years: 69.99% (male 3,592,984; female 3,590,802)

65 years and over: 13.92% (male 549,538; female 878,938) (2001 est.)

Political parties and leaders: Christian and Democratic Union-Czechoslovak People's Party or KDU-CSL [Cyril SVOBODA, chairman]; Civic Democratic Alliance or ODA [Michael ZANTOVSKY, chairman]; Civic Democratic Party or ODS [Vaclav KLAUS, chairman]; Communist Party of Bohemia and Moravia or KSCM [Miroslav GREBENICEK, chairman]; Communist Party of Czechoslovakia or KSC [Miroslav STEPAN, chairman]; Czech National Social Party of CSNS [Jan SULA, chairman]; Czech Social Democratic Party or CSSD [Milos ZEMAN, chairman]; Democratic Union or DEU [Ratibor MAJZLIK, chairman]; Freedom Union or US [Hana MARVANOVÁ, chairman]; Quad Coalition [Karel KUHNL, chairman] (includes KDU-CSL, US, ODA, DEU); Republicans of Miroslav SLADEK or RMS [Miroslav SLADEK, chairman]

Political pressure groups and leaders: Czech-Moravian Confederation of Trade Unions [Richard FALBR]

International organization participation: ACCT (observer), Australia Group, BIS, CCC, CE, CEI, CERN, EAPC, EBRD, ECE, EU (applicant), FAO, IAEA, IBRD, ICAO, ICC, ICFTU, ICRM, IDA, IEA, IFC, IFRCS, ILO, IMF, IMO, Inmarsat, Intelsat, Interpol, IOC, IOM, ISO, ITU, MONUC, NATO, NEA, NSG, OAS (observer), OECD, OPCW, OSCE, PCA, PFP, UN, UNCTAD, UNESCO, UNIDO, UNMEE, UNMIBH, UNMIK, UNMOP, UNMOT, UNOMIG, UPU, WCL, WEU (associate), WFTU, WHO, WIPO, WMO, WToO, WTrO, ZC

Diplomatic representation in the US: *chief of mission:* Ambassador Alexsandr VONDRA

chancery: 3900 Spring of Freedom Street NW, Washington, DC 20008

telephone: [1] (202) 274-9100

FAX: [1] (202) 966-8540

consulate(s) general: Los Angeles and New York

Diplomatic representation from the US: *chief of mission:* Ambassador (vacant); Charge d'Affaires Steven J. COFFEY

embassy: Trziste 15, 118 #01 Prague 1

mailing address: use embassy street address

telephone: [420] (2) 5753-0663

FAX: [420] (2) 5753-0583

Flag description: two equal horizontal bands of white (top) and red with a blue isosceles triangle based on the hoist side (identical to the flag of the former Czechoslovakia)

Czech Republic Economy

Top of Page

Economy - overview: Basically one of the most stable and prosperous of the post-Communist states, the Czech Republic has been recovering from recession since mid-1999. The economy grew about 2.5% in 2000 and should achieve somewhat higher growth in 2001. Growth is led by exports to the EU, especially Germany, and foreign investment, while domestic demand is reviving. Uncomfortably high fiscal and current account deficits could be future problems. Unemployment is down to 8.7% as job creation continues in the rebounding economy; inflation is up to 3.8% but still moderate. The EU put the Czech Republic just behind Poland and Hungary in preparations for accession, which will give further impetus and direction to structural reform. Moves to complete banking, telecommunications and energy privatization will add to foreign investment, while intensified restructuring among large enterprises and banks and improvements in the financial sector should strengthen output growth.

GDP: purchasing power parity - \$132.4 billion (2000 est.)



Russia

Introduction Geography People Government Economy Communications Transportation Military
Transnational Issues Print This Frame



Russia

Introduction

[Top of Page](#)

Background: The defeat of the Russian Empire in World War I led to the seizure of power by the communists and the formation of the USSR. The brutal rule of Josef STALIN (1924-53) strengthened Russian dominance of the Soviet Union at a cost of tens of millions of lives. The Soviet economy and society stagnated in the following decades until General Secretary Mikhail GORBACHEV (1985-91) introduced glasnost (openness) and perestroika (restructuring) in an attempt to modernize communism, but his initiatives inadvertently released forces that by December 1991 splintered the USSR into 15 independent republics. Since then, Russia has struggled in its efforts to build a democratic political system and market economy to replace the strict social, political, and economic controls of the communist period.

Russia

Geography

[Top of Page](#)

Location: Northern Asia (that part west of the Urals is sometimes included with Europe), bordering the Arctic Ocean, between Europe and the North Pacific Ocean

Geographic coordinates: 60 00 N, 100 00 E

Map references: Asia

Area: total: 17,075,200 sq km

land: 16,995,800 sq km

water: 79,400 sq km

Environment - international agreements: *party to:* Air Pollution, Air Pollution-Nitrogen Oxides, Air Pollution-Sulphur 85, Antarctic-Environmental Protocol, Antarctic-Marine Living Resources, Antarctic Seals, Antarctic Treaty, Biodiversity, Climate Change, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Marine Dumping, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Tropical Timber 83, Wetlands, Whaling

signed, but not ratified: Air Pollution-Sulphur 94, Climate Change-Kyoto Protocol

Geography - note: largest country in the world in terms of area but unfavorably located in relation to major sea lanes of the world; despite its size, much of the country lacks proper soils and climates (either too cold or too dry) for agriculture; Mount Elbrus is Europe's tallest peak

Russia

People

Top of Page

Population: 145,470,197 (July 2001 est.)

Age structure: *0-14 years:* 17.41% (male 12,915,026; female 12,405,341)

15-64 years: 69.78% (male 49,183,000; female 52,320,962)

65 years and over: 12.81% (male 5,941,944; female 12,703,924) (2001 est.)

Population growth rate: -0.35% (2001 est.)

Birth rate: 9.35 births/1,000 population (2001 est.)

Death rate: 13.85 deaths/1,000 population (2001 est.)

Net migration rate: 0.98 migrant(s)/1,000 population (2001 est.)

Sex ratio: *at birth:* 1.05 male(s)/female

under 15 years: 1.04 male(s)/female

15-64 years: 0.94 male(s)/female

65 years and over: 0.47 male(s)/female

total population: 0.88 male(s)/female (2001 est.)

Infant mortality rate: 20.05 deaths/1,000 live births (2001 est.)

Life expectancy at birth: *total population:* 67.34 years

male: 62.12 years

female: 72.83 years (2001 est.)

Total fertility rate: 1.27 children born/woman (2001 est.)

HIV/AIDS - adult prevalence rate: 0.18% (1999 est.)

HIV/AIDS - people living with HIV/AIDS: 130,000 (1999 est.)

HIV/AIDS - deaths: 850 (1999 est.)

Economy - overview: A decade after the implosion of the Soviet Union in 1991, Russia is still struggling to establish a modern market economy and achieve strong economic growth. In contrast to its trading partners in Central Europe - which were able to overcome the initial production declines that accompanied the launch of market reforms within three to five years - Russia saw its economy contract for five years, as the executive and legislature dithered over the implementation of many of the basic foundations of a market economy. Russia achieved a slight recovery in 1997, but the government's stubborn budget deficits and the country's poor business climate made it vulnerable when the global financial crisis swept through in 1998. The crisis culminated in the August depreciation of the ruble, a debt default by the government, and a sharp deterioration in living standards for most of the population. The economy rebounded in 1999 and 2000, buoyed by the competitive boost from the weak ruble and a surging trade surplus fueled by rising world oil prices. This recovery, along with a renewed government effort in 2000 to advance lagging structural reforms, have raised business and investor confidence over Russia's prospects in its second decade of transition. Yet serious problems persist. Russia remains heavily dependent on exports of commodities, particularly oil, natural gas, metals, and timber, which account for over 80% of exports, leaving the country vulnerable to swings in world prices. Russia's agricultural sector remains beset by uncertainty over land ownership rights, which has discouraged needed investment and restructuring. Another threat is negative demographic trends, fueled by low birth rates and a deteriorating health situation - including an alarming rise in AIDS cases - that have contributed to a nearly 2% drop in the population since 1992. Russia's industrial base is increasingly dilapidated and must be replaced or modernized if the country is to achieve sustainable economic growth. Other problems include widespread corruption, capital flight, and brain drain.

GDP: purchasing power parity - \$1.12 trillion (2000 est.)

GDP - real growth rate: 6.3% (2000 est.)

GDP - per capita: purchasing power parity - \$7,700 (2000 est.)

GDP - composition by sector: *agriculture:* 7%
industry: 34%
services: 59% (1999 est.)

Population below poverty line: 40% (1999 est.)

Household income or consumption by percentage share: *lowest 10%:* 1.7%
highest 10%: 38.7% (1998)

Inflation rate (consumer prices): 20.6% (2000 est.)

Labor force: 66 million (1997)

Labor force - by occupation: agriculture 15%, industry 30%, services 55% (1999 est.)

Unemployment rate: 10.5% (2000 est.), plus considerable underemployment

Budget: *revenues:* \$40 billion

expenditures: \$33.7 billion, including capital expenditures of \$NA (2000 est.)

Exhibit 17

Trade Reform Legislation 1988:

A Legislative History of the Omnibus Trade and Competitiveness Act of 1988 (Pub. L. No. 100-418)

by

**Bernard D. Reams, Jr., J.D., Ph.D.
and
Mary Ann Nelson, M.S., J.D.**

**with a Foreword by
The Honorable Edward D. Re
Chief Judge Emeritus
United States Court of International Trade**

Volume 5

Document 36

**William S. Hein & Co., Inc.
Buffalo, New York
1991**

decision on information generally available to it at that time. In addition, Commerce should seek to use, if possible, data based on production of the same general class or kind of merchandise using similar levels of technology and at similar levels of volume as the producers subject to investigation.

b. Nonmarket economy country

Present law

No provision.

House bill

No provision.

Senate amendment

The Senate amendment defines the term "nonmarket economy country" as any foreign country that Commerce determines does not operate on market principles of cost or pricing structures, so that sales in the country do not reflect the fair value of the goods. In making this determination, Commerce shall take into account: currency convertibility; the extent to which wage rates are determined by free bargaining between labor and management; the extent to which joint ventures and foreign investment are permitted; and other factors Commerce considers appropriate.

Commerce may make such a determination at any time. It shall remain in effect until revoked and not be subject to judicial review.

Conference agreement

The House recedes with an amendment to add as additional factors to be considered, (a) the extent of government ownership or control over means of production, and (b) the extent of government control over allocation of resources, price and output decisions of enterprises, and international transactions.

c. Eligible market economy country

Present law

No provision.

House bill

No provision.

Senate amendment

The Senate amendment defines the term "eligible market economy country," as any country that is not a nonmarket economy country, where comparable goods are produced and exported, and which Commerce determines is appropriate, taking into account factors including, but not limited to:

- (1) whether comparable goods from that country are subject to an antidumping or countervailing duty order (or agreement suspending any such investigation);
- (2) whether any international agreement affecting the price or quantity of imports is in effect; or,
- (3) whether the level of imports is *de minimis*.

Exhibit 18

World Bank Report 2001

Energy in transition



European Bank
for Reconstruction and Development

**Economic transition in
central and eastern Europe,
the Baltic states and the CIS**



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2001

	1993	1994	1995	1996	1997	1998	1999	2000	2001
								Estimate	Projection
Output and expenditure	(Percentage change in real terms)								
GDP	-8.7	-12.7	-4.1	-3.5	0.9	-4.9	5.4	8.3	5.5
Private consumption	1.2	1.2	-2.8	-4.7	5.4	-3.6	-3.4	8.0	na
Public consumption	-6.4	-2.9	1.1	0.8	-2.4	0.6	9.5	2.0	na
Gross fixed investment	-25.8	-26.0	-7.5	-19.3	-5.7	-11.2	2.4	18.0	na
Exports of goods and services	na	na	7.3	-2.0	4.2	2.7	-4.5	6.0	na
Imports of goods and services	na	na	16.6	6.9	10.6	-14.1	-21.7	16.0	na
Industrial gross output	-14.1	-20.9	-3.3	-4.0	1.9	-5.2	8.1	9.0	na
Agricultural gross output	-4.4	-12.0	-7.6	-5.1	0.1	-12.3	2.4	4.0	na
Employment	(Percentage change)								
Labour force (end-year)	-1.4	-1.4	-1.5	0.5	-0.6	0.2	1.1	na	na
Employment (end-year)	-1.7	-3.4	-3.1	-0.6	-2.1	-2.0	2.8	na	na
	(In per cent of labour force)								
Unemployment (end-year)	6.0	7.8	9.0	9.9	11.2	13.3	11.7	9.7	na
Prices and wages	(Percentage change)								
Consumer prices (annual average)	875.0	311.4	197.7	47.8	14.7	27.6	86.1	20.8	21.4
Consumer prices (end-year)	840.0	204.4	128.6	21.8	10.9	84.5	36.8	20.1	17.5
Producer prices (annual average)	941.9	337.4	236.5	50.8	19.7	7.0	58.9	31.6	na
Producer prices (end-year)	895.0	233.0	175.0	25.6	7.4	23.0	69.8	27.8	na
Gross average monthly earnings in economy (annual average)	904.7	277.3	119.5	48.4	20.2	15.2	44.4	43.1	na
Government sector¹	(In per cent of GDP)								
General government balance	-7.3	-10.4	-6.0	-8.9	-7.9	-8.0	-3.3	3.0	3.0
General government expenditure	43.6	45.1	39.1	42.4	44.4	41.4	38.4	35.8	na
General government debt (domestic)	na	na	na	na	na	na	na	na	na
Monetary sector	(Percentage change)								
Broad money (M2, end-year)	na	200.0	125.8	30.6	29.8	19.8	57.2	62.4	na
Domestic credit (end-year)	na	335.6	87.8	48.3	22.2	68.2	34.1	26.0	na
	(In per cent of GDP)								
Broad money (M2, end-year)	19.0	16.0	13.9	13.4	14.8	16.6	15.5	16.5	na
Interest and exchange rates	(In per cent per annum, end-year)								
Central bank refinancing rate (uncompounded)	210.0	180.0	160.0	48.0	28.0	60.0	55.0	25.0	na
Treasury bill rate (all maturities) ²	103.2	263.0	104.1	33.6	36.6	48.1	16.0	12.0	na
Lending rate	na	na	320.0	146.8	32.0	41.7	38.3	18.0	na
Deposit rate	na	na	102.0	55.1	16.8	17.1	9.4	5.0	na
	(Roubles per US dollar)								
Exchange rate (end-year) ³	1.2	3.6	4.6	5.6	6.0	20.7	26.8	28.2	na
Exchange rate (annual average) ³	1.0	2.2	4.6	5.1	5.8	10.0	24.6	28.2	na
External sector	(In millions of US dollars)								
Current account ⁴	na	8,041	7,982	12,562	2,321	1,097	24,963	46,324	35,500
Trade balance ⁴	15,342	17,024	20,725	22,934	17,363	17,100	35,846	60,703	50,400
Merchandise exports ⁴	59,646	67,542	82,913	90,564	89,008	74,883	75,306	105,565	102,000
Merchandise imports ⁴	44,304	50,518	62,188	67,630	71,645	57,783	39,460	44,862	51,600
Foreign direct investment, net	na	500	1,663	1,665	4,036	1,734	746	-346	2,000
International reserves (end-year), excluding gold	na	5,000	14,400	11,276	12,895	7,801	8,457	24,500	na
External debt stock ⁵	na	126,500	127,000	135,100	134,100	157,700	154,600	142,198	na
	(In months of imports of goods and services)								
International reserves (end-year), excluding gold	na	0.9	2.1	1.6	1.7	1.3	1.9	4.7	na
	(In per cent of current account revenues, excluding transfers)								
Public debt service due ⁶	na	23.6	19.6	16.6	10.9	14.2	23.0	13.1	na
Public debt service paid ⁶	na	4.6	6.5	6.4	5.5	8.5	28.9	17.3	na
Memorandum items	(Denominations as indicated)								
Population (end-year, millions) ⁷	148.7	148.4	148.3	148.0	147.5	146.4	145.7	145.4	na
GDP (in millions of roubles)	171,500	610,700	1,585,000	2,145,656	2,522,000	2,696,000	4,545,100	6,946,000	8,900,000
GDP per capita (in US dollars)	1,133	1,867	2,343	2,829	2,953	1,848	1,268	1,697	na
Share of industry in GDP (in per cent)	34.4	32.8	29.0	29.5	28.4	29.1	31.9	32.1	na
Share of agriculture in GDP (in per cent)	8.2	6.5	7.2	7.3	6.7	6.0	6.9	6.6	na
Current account/GDP (in per cent)	na	2.9	2.3	3.0	0.5	0.4	13.5	18.8	11.6
External debt - reserves, in US\$ millions	na	131,500	132,600	153,824	151,205	176,199	170,243	143,500	na
External debt/GDP (in per cent)	na	49.3	42.3	39.4	37.7	68.0	96.7	68.1	na
External debt/exports of goods and services (in per cent)	na	179.8	157.3	159.0	159.2	210.9	211.9	145.8	na

¹ General consolidated government includes the federal, regional and local budgets and extra-budgetary funds and excludes transfers.

² The 1998 figure is the yield on obligations of the Central Bank of Russia.

³ Data in new (denominated) roubles per US dollar. From 1 January, 1998, one new rouble = 1,000 old roubles.

⁴ Data from the consolidated balance of payments, which covers transactions with both CIS and non-CIS countries.

⁵ Data include public debt only. Debt to former COMECON countries is included.

⁶ Difference between due and paid arises from accumulation of arrears on debt servicing.

⁷ Data as of 1 January of the following year.